

training and continuing education to enhance their lifesaving skills. It is well known that access to quality emergency care dramatically improves the survival and recovery rate of those who experience sudden illness or injury. In fact, emergency medical services providers have traditionally served as the safety net of America's health care system.

However, this healthcare safety net today is in crisis. On the front lines, emergency medical service providers are faced with crowded emergency departments and dwindling resources. These, and many other complex issues are threatening the ability of health professionals to deliver quality care.

A solution to the overcrowding of our nation's emergency departments requires a national commitment. This will mean allocating significant financial resources and convening Federal and State policymakers, local hospitals, community leaders and public and private health plan payers to develop workable solutions. We will also need adequate monitoring and data collection efforts to understand the scope of these problems and to uncover the best methods for resolving this crisis.

To continue to deliver quality healthcare in this country, we must not only recognize those individuals who have dedicated their careers to caring for the very sickest Americans, but also the undue stress and burden this system in crisis places on them each and every day. We must work toward resolving this crisis so we can continue to attract quality healthcare professionals to the EMS field and to give them the resources they need to continue to save lives.

It is appropriate to recognize the value and the accomplishments of emergency medical service providers by designating this May 20–26, Emergency Medical Services Week.

I ask my colleagues to join with me in supporting this resolution.

#### AMENDMENTS SUBMITTED AND PROPOSED

SA 650. Mr. GRASSLEY (for himself and Mr. BAUCUS) proposed an amendment to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002.

SA 651. Ms. LANDRIEU (for herself and Mr. CRAIG) submitted an amendment intended to be proposed by her to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 652. Mr. LEAHY (for himself and Mr. BENNETT) submitted an amendment intended to be proposed by him to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 653. Mr. KERRY submitted an amendment intended to be proposed by him to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 654. Mr. CONRAD (for himself and Mr. KENNEDY) proposed an amendment to the bill H.R. 1836, supra.

SA 655. Mr. SANTORUM submitted an amendment intended to be proposed by him

to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 656. Mr. GREGG (for himself, Mr. ENSIGN, Mr. ALLARD, Mr. KYL, Mr. BUNNING, and Mr. ALLEN) submitted an amendment intended to be proposed by him to the bill H.R. 1836, supra.

SA 657. Mr. GREGG submitted an amendment intended to be proposed by him to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 658. Mr. KYL submitted an amendment intended to be proposed by him to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 659. Mrs. HUTCHISON (for herself and Mr. BROWNBACK) proposed an amendment to the bill H.R. 1836, supra.

SA 660. Mr. McCain submitted an amendment intended to be proposed by him to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 661. Mr. JOHNSON submitted an amendment intended to be proposed by him to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 662. Mr. INOUE (for himself and Mr. AKAKA) submitted an amendment intended to be proposed by him to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 663. Mr. INOUE (for himself and Mr. AKAKA) submitted an amendment intended to be proposed by him to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 664. Mr. SCHUMER submitted an amendment intended to be proposed by him to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 665. Mr. TORRICELLI submitted an amendment intended to be proposed by him to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 666. Mr. TORRICELLI submitted an amendment intended to be proposed by him to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 667. Mr. TORRICELLI submitted an amendment intended to be proposed by him to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 668. Mr. ENSIGN submitted an amendment intended to be proposed by him to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 669. Mr. SCHUMER (for himself, Mr. BIDEN, Mr. BAYH, Mr. LIEBERMAN, Mr. DURBIN, Mr. TORRICELLI, Mrs. CLINTON, Mr. DASCHLE, Ms. STABENOW, and Mr. DAYTON) proposed an amendment to the bill H.R. 1836, supra.

SA 670. Mr. FITZGERALD (for himself, Mr. SCHUMER, Mr. JEFFORDS, Mrs. CLINTON, Mr. McCain, Mr. TORRICELLI, Mr. DOMENICI, Mr. ALLEN, Mr. DURBIN, Mr. SMITH, of Oregon, Mr. SPECTER, and Mr. NELSON, of Florida) proposed an amendment to the bill H.R. 1836, supra.

SA 671. Mr. ALLARD (for himself, Mr. GREGG, and Mr. BUNNING) submitted an amendment intended to be proposed by him to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 672. Mr. ALLEN submitted an amendment intended to be proposed by him to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 673. Mr. ALLEN submitted an amendment intended to be proposed by him to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 674. Mrs. CARNAHAN (for herself and Mr. DASCHLE) proposed an amendment to the bill H.R. 1836, supra.

SA 675. Ms. COLLINS (for herself, Mr. WARNER, Mr. COCHRAN, Ms. LANDRIEU, Mr.

ALLEN, Mr. SMITH, of Oregon, Mr. HARKIN, Ms. MIKULSKI, Mr. REED, Mr. HUTCHINSON, Mr. DODD, and Mr. ENZI) proposed an amendment to the bill H.R. 1836, supra.

SA 676. Mr. BIDEN (for himself, Mr. TORRICELLI, Mr. KERRY, Mr. SCHUMER, Mr. BAUCUS, Mr. ALLEN, Mrs. BOXER, Mr. CARPER, Mr. CHAFEE, Mrs. CLINTON, Mr. CORZINE, Mr. DAYTON, Mr. DODD, Mr. DURBIN, Mr. LEAHY, Ms. MIKULSKI, Mrs. MURRAY, Mr. ROCKEFELLER, Mr. SARBANES, Mr. SPECTER, and Mr. WARNER) submitted an amendment intended to be proposed by him to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 677. Mr. KERRY submitted an amendment intended to be proposed by him to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 678. Mr. KERRY submitted an amendment intended to be proposed by him to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 679. Mr. ROCKEFELLER (for himself, Mr. GRAHAM, Mr. WELLSTONE, Mr. KENNEDY, Mr. HARKIN, Mr. JOHNSON, Mr. KERRY, Mrs. CLINTON, Mr. DAYTON, and Ms. STABENOW) proposed an amendment to the bill H.R. 1836, supra.

SA 680. Mr. SMITH, of New Hampshire submitted an amendment intended to be proposed by him to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 681. Mr. SMITH, of New Hampshire submitted an amendment intended to be proposed by him to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 682. Mrs. HUTCHISON submitted an amendment intended to be proposed by her to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 683. Mrs. HUTCHISON submitted an amendment intended to be proposed by her to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 684. Mr. KENNEDY (for himself, Mr. DODD, and Mr. JOHNSON) submitted an amendment intended to be proposed by him to the bill H.R. 1836, supra; which was ordered to lie on the table.

SA 685. Mr. BAYH (for himself, Ms. SNOWE, Mr. CHAFEE, Ms. LANDRIEU, Mrs. FEINSTEIN, Ms. COLLINS, Ms. STABENOW, Mr. JEFFORDS, Mr. KOHL, Mr. CARPER, Mr. NELSON, of Florida, and Mrs. CLINTON) proposed an amendment to the bill H.R. 1836, supra.

SA 686. Ms. LANDRIEU (for herself, Mr. CRAIG, and Mrs. LINCOLN) proposed an amendment to the bill H.R. 1836, supra.

SA 687. Mr. GRAHAM (for himself, Mr. CORZINE, and Mr. DAYTON) proposed an amendment to the bill H.R. 1836, supra.

SA 688. Mr. GRAHAM proposed an amendment to the bill H.R. 1836, supra.

#### TEXT OF AMENDMENTS

**SA 650.** Mr. GRASSLEY (for himself and Mr. BAUCUS) proposed an amendment to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; as follows:

Strike all after the enacting clause and insert the following:

##### SECTION 1. SHORT TITLE; ETC.

(a) **SHORT TITLE.**—This Act may be cited as the “Restoring Earnings To Lift Individuals and Empower Families (RELIEF) Act of 2001”.

(b) **AMENDMENT OF 1986 CODE.**—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a

section or other provision of the Internal Revenue Code of 1986.

(c) SECTION 15 NOT TO APPLY.—No amendment made by this Act shall be treated as a change in a rate of tax for purposes of section 15 of the Internal Revenue Code of 1986.

(d) TABLE OF CONTENTS.—The table of contents of this Act is as follows:

Sec. 1. Short title; etc.

#### TITLE I—INDIVIDUAL INCOME TAX RATE REDUCTIONS

##### Subtitle A—In General

Sec. 101. Reduction in income tax rates for individuals.

Sec. 102. Increase in amount of income required before phaseout of itemized deductions begins.

Sec. 103. Repeal of phaseout of deduction for personal exemptions.

##### Subtitle B—Compliance With Congressional Budget Act

Sec. 111. Sunset of provisions of title.

Sec. 112. Restoration of provisions of title.

#### TITLE II—CHILD TAX CREDIT

##### Subtitle A—In General

Sec. 201. Modifications to child tax credit.

##### Subtitle B—Compliance With Congressional Budget Act

Sec. 211. Sunset of provisions of title.

Sec. 212. Restoration of provisions of title.

#### TITLE III—MARRIAGE PENALTY RELIEF

##### Subtitle A—In General

Sec. 301. Elimination of marriage penalty in standard deduction.

Sec. 302. Phaseout of marriage penalty in 15-percent bracket.

Sec. 303. Marriage penalty relief for earned income credit; earned income to include only amounts includible in gross income; simplification of earned income credit.

##### Subtitle B—Compliance With Congressional Budget Act

Sec. 311. Sunset of provisions of title.

Sec. 312. Restoration of provisions of title.

#### TITLE IV—AFFORDABLE EDUCATION PROVISIONS

##### Subtitle A—Education Savings Incentives

Sec. 401. Modifications to education individual retirement accounts.

Sec. 402. Modifications to qualified tuition programs.

##### Subtitle B—Educational Assistance

Sec. 411. Permanent extension of exclusion for employer-provided educational assistance.

Sec. 412. Elimination of 60-month limit and increase in income limitation on student loan interest deduction.

Sec. 413. Exclusion of certain amounts received under the national health service corps scholarship program and the F. Edward Hebert Armed Forces Health Professions Scholarship and Financial Assistance Program.

##### Subtitle C—Liberalization of Tax-Exempt Financing Rules for Public School Construction

Sec. 421. Additional increase in arbitrage rebate exception for governmental bonds used to finance educational facilities.

Sec. 422. Treatment of qualified public educational facility bonds as exempt facility bonds.

##### Subtitle D—Other Provisions

Sec. 431. Deduction for higher education expenses.

Sec. 432. Credit for interest on higher education loans.

##### Subtitle E—Compliance With Congressional Budget Act

Sec. 441. Sunset of provisions of title.

Sec. 442. Restoration of provisions of title.

#### TITLE V—ESTATE, GIFT, AND GENERATION-SKIPPING TRANSFER TAX PROVISIONS

##### Subtitle A—Repeal of Estate and Generation-Skipping Transfer Taxes

Sec. 501. Repeal of estate and generation-skipping transfer taxes.

##### Subtitle B—Reductions of Estate and Gift Tax Rates

Sec. 511. Additional reductions of estate and gift tax rates.

##### Subtitle C—Increase in Exemption Amounts

Sec. 521. Increase in exemption equivalent of unified credit, lifetime gifts exemption, and GST exemption amounts.

##### Subtitle D—Credit for State Death Taxes

Sec. 531. Reduction of credit for State death taxes.

Sec. 532. Credit for State death taxes replaced with deduction for such taxes.

##### Subtitle E—Carryover Basis at Death; Other Changes Taking Effect With Repeal

Sec. 541. Termination of step-up in basis at death.

Sec. 542. Treatment of property acquired from a decedent dying after December 31, 2010.

##### Subtitle F—Conservation Easements

Sec. 551. Expansion of estate tax rule for conservation easements.

##### Subtitle G—Modifications of Generation-Skipping Transfer Tax

Sec. 561. Deemed allocation of GST exemption to lifetime transfers to trusts; retroactive allocations.

Sec. 562. Severing of trusts.

Sec. 563. Modification of certain valuation rules.

Sec. 564. Relief provisions.

##### Subtitle H—Extension of Time for Payment of Estate Tax

Sec. 571. Expansion of availability of installment payment for estates with interests qualifying lending and finance businesses.

Sec. 572. Clarification of availability of installment payment.

##### Subtitle I—Compliance With Congressional Budget Act

Sec. 581. Sunset of provisions of title.

Sec. 582. Restoration of provisions of title.

#### TITLE VI—PENSION AND INDIVIDUAL RETIREMENT ARRANGEMENT PROVISIONS

##### Subtitle A—Individual Retirement Accounts

Sec. 601. Modification of IRA contribution limits.

Sec. 602. Deemed IRAs under employer plans.

Sec. 603. Tax-free distributions from individual retirement accounts for charitable purposes.

##### Subtitle B—Expanding Coverage

Sec. 611. Increase in benefit and contribution limits.

Sec. 612. Plan loans for subchapter S owners, partners, and sole proprietors.

Sec. 613. Modification of top-heavy rules.

Sec. 614. Elective deferrals not taken into account for purposes of deduction limits.

Sec. 615. Repeal of coordination requirements for deferred compensation plans of State and local governments and tax-exempt organizations.

Sec. 616. Deduction limits.

Sec. 617. Option to treat elective deferrals as after-tax Roth contributions.

Sec. 618. Nonrefundable credit to certain individuals for elective deferrals and IRA contributions.

Sec. 619. Credit for qualified pension plan contributions of small employers.

Sec. 620. Credit for pension plan startup costs of small employers.

Sec. 621. Elimination of user fee for requests to IRS regarding new pension plans.

Sec. 622. Treatment of nonresident aliens engaged in international transportation services.

##### Subtitle C—Enhancing Fairness for Women

Sec. 631. Catch-up contributions for individuals age 50 or over.

Sec. 632. Equitable treatment for contributions of employees to defined contribution plans.

Sec. 633. Faster vesting of certain employer matching contributions.

Sec. 634. Modifications to minimum distribution rules.

Sec. 635. Clarification of tax treatment of division of section 457 plan benefits upon divorce.

Sec. 636. Provisions relating to hardship distributions.

Sec. 637. Waiver of tax on nondeductible contributions for domestic or similar workers.

##### Subtitle D—Increasing Portability for Participants

Sec. 641. Rollovers allowed among various types of plans.

Sec. 642. Rollovers of IRAs into workplace retirement plans.

Sec. 643. Rollovers of after-tax contributions.

Sec. 644. Hardship exception to 60-day rule.

Sec. 645. Treatment of forms of distribution.

Sec. 646. Rationalization of restrictions on distributions.

Sec. 647. Purchase of service credit in governmental defined benefit plans.

Sec. 648. Employers may disregard rollovers for purposes of cash-out amounts.

Sec. 649. Minimum distribution and inclusion requirements for section 457 plans.

##### Subtitle E—Strengthening Pension Security and Enforcement

#### PART I—GENERAL PROVISIONS

Sec. 651. Repeal of 160 percent of current liability funding limit.

Sec. 652. Maximum contribution deduction rules modified and applied to all defined benefit plans.

Sec. 653. Excise tax relief for sound pension funding.

Sec. 654. Treatment of multiemployer plans under section 415.

Sec. 655. Protection of investment of employee contributions to 401(k) plans.

Sec. 656. Prohibited allocations of stock in S corporation ESOP.

Sec. 657. Automatic rollovers of certain mandatory distributions.

Sec. 658. Clarification of treatment of contributions to multiemployer plan.

PART II—TREATMENT OF PLAN AMENDMENTS  
REDUCING FUTURE BENEFIT ACCRUALS

Sec. 659. Notice required for pension plan amendments having the effect of significantly reducing future benefit accruals.

Subtitle F—Reducing Regulatory Burdens

Sec. 661. Modification of timing of plan valuations.

Sec. 662. ESOP dividends may be reinvested without loss of dividend deduction.

Sec. 663. Repeal of transition rule relating to certain highly compensated employees.

Sec. 664. Employees of tax-exempt entities.

Sec. 665. Clarification of treatment of employer-provided retirement advice.

Sec. 666. Reporting simplification.

Sec. 667. Improvement of employee plans compliance resolution system.

Sec. 668. Repeal of the multiple use test.

Sec. 669. Flexibility in nondiscrimination, coverage, and line of business rules.

Sec. 670. Extension to all governmental plans of moratorium on application of certain nondiscrimination rules applicable to State and local plans.

Subtitle G—Other ERISA Provisions

Sec. 681. Missing participants.

Sec. 682. Reduced PBGC premium for new plans of small employers.

Sec. 683. Reduction of additional PBGC premium for new and small plans.

Sec. 684. Authorization for PBGC to pay interest on premium overpayment refunds.

Sec. 685. Substantial owner benefits in terminated plans.

Subtitle H—Miscellaneous Provisions

Sec. 691. Tax treatment and information requirements of Alaska Native Settlement Trusts.

Subtitle I—Compliance With Congressional Budget Act

Sec. 695. Sunset of provisions of title.

Sec. 696. Restoration of provisions of title.

TITLE VII—ALTERNATIVE MINIMUM TAX

Subtitle A—In General

Sec. 701. Increase in alternative minimum tax exemption.

Subtitle B—Compliance With Congressional Budget Act

Sec. 711. Sunset of provisions of title.

Sec. 712. Restoration of provisions of title.

TITLE VIII—OTHER PROVISIONS

Subtitle A—In General

Sec. 801. Time for payment of corporate estimated taxes.

Sec. 802. Expansion of authority to postpone certain tax-related deadlines by reason of presidentially declared disaster.

Subtitle B—Compliance With Congressional Budget Act

Sec. 811. Sunset of provisions of title.

Sec. 812. Restoration of provisions of title.

TITLE I—INDIVIDUAL INCOME TAX RATE REDUCTIONS

Subtitle A—In General

SEC. 101. REDUCTION IN INCOME TAX RATES FOR INDIVIDUALS.

(a) IN GENERAL.—Section 1 is amended by adding at the end the following new subsection:

“(i) RATE REDUCTIONS AFTER 2000.—

“(1) 10-PERCENT RATE BRACKET.—

“(A) IN GENERAL.—In the case of taxable years beginning after December 31, 2000—

“(i) the rate of tax under subsections (a), (b), (c), and (d) on taxable income not over the initial bracket amount shall be 10 percent, and

“(ii) the 15 percent rate of tax shall apply only to taxable income over the initial bracket amount but not over the maximum dollar amount for the 15-percent rate bracket.

“(B) INITIAL BRACKET AMOUNT.—For purposes of this subsection, the initial bracket amount is—

“(i) \$12,000 in the case of subsection (a),

“(ii) \$10,000 in the case of subsection (b), and

“(iii) ½ the amount applicable under clause (i) (after adjustment, if any, under subparagraph (C)) in the case of subsections (c) and (d).

“(C) INFLATION ADJUSTMENT.—In prescribing the tables under subsection (f) which apply with respect to taxable years beginning in calendar years after 2001—

“(i) the Secretary shall make no adjustment to the initial bracket amount for any taxable year beginning before January 1, 2007,

“(ii) the cost-of-living adjustment used in making adjustments to the initial bracket amount for any taxable year beginning after December 31, 2006, shall be determined under subsection (f)(3) by substituting ‘2005’ for ‘1992’ in subparagraph (B) thereof, and

“(iii) such adjustment shall not apply to the amount referred to in subparagraph (B)(iii).

If any amount after adjustment under the preceding sentence is not a multiple of \$50, such amount shall be rounded to the next lowest multiple of \$50.

“(2) REDUCTIONS IN RATES AFTER 2001.—In the case of taxable years beginning in a calendar year after 2001, the corresponding percentage specified for such calendar year in the following table shall be substituted for the otherwise applicable tax rate in the tables under subsections (a), (b), (c), (d), and (e).

“In the case of taxable years beginning during calendar year:	The corresponding percentages shall be substituted for the following percentages:			
	28%	31%	36%	39.6%
2002, 2003, and 2004 ..	27%	30%	35%	38.6%
2005 and 2006 .....	26%	29%	34%	37.6%
2007 and thereafter .....	25%	28%	33%	36%

“(3) ADJUSTMENT OF TABLES.—The Secretary shall adjust the tables prescribed under subsection (f) to carry out this subsection.”.

(b) CONFORMING AMENDMENTS.—

(1) Subparagraph (B) of section 1(g)(7) is amended by striking “15 percent” in clause (ii)(I) and inserting “10 percent.”.

(2) Section 1(h) is amended—

(A) by striking “28 percent” both places it appears in paragraphs (1)(A)(ii)(I) and (1)(B)(i) and inserting “25 percent”, and

(B) by striking paragraph (13).

(3) Section 531 is amended by striking “equal to” and all that follows and inserting “equal to the product of the highest rate of tax under section 1(c) and the accumulated taxable income.”.

(4) Section 541 is amended by striking “equal to” and all that follows and inserting “equal to the product of the highest rate of tax under section 1(c) and the undistributed personal holding company income.”.

(5) Section 3402(p)(1)(B) is amended by striking “7, 15, 28, or 31 percent” and inserting “7 percent, any percentage applicable to any of the 3 lowest income brackets in the table under section 1(c).”.

(6) Section 3402(p)(2) is amended by striking “15 percent” and inserting “10 percent”.

(7) Section 3402(q)(1) is amended by striking “equal to 28 percent of such payment” and inserting “equal to the product of the third lowest rate of tax under section 1(c) and such payment”.

(8) Section 3402(r)(3) is amended by striking “31 percent” and inserting “the fourth lowest rate of tax under section 1(c)”.

(9) Section 3406(a)(1) is amended by striking “equal to 31 percent of such payment” and inserting “equal to the product of the fourth lowest rate of tax under section 1(c) and such payment”.

(10) Section 13273 of the Revenue Reconciliation Act of 1993 is amended by striking “28 percent” and inserting “the third lowest rate of tax under section 1(c) of the Internal Revenue Code of 1986”.

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 2000.

(2) AMENDMENTS TO WITHHOLDING PROVISIONS.—The amendments made by paragraphs (6), (7), (8), (9), (10), and (11) of subsection (b) shall apply to amounts paid after the 60th day after the date of the enactment of this Act.

SEC. 102. INCREASE IN AMOUNT OF INCOME REQUIRED BEFORE PHASEOUT OF ITEMIZED DEDUCTIONS BEGINS.

(a) IN GENERAL.—Section 68(b)(1) (defining applicable amount) is amended—

(1) by striking “\$100,000” and inserting “\$150,000”, and

(2) by striking “\$50,000” and inserting “\$75,000”.

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2008.

SEC. 103. REPEAL OF PHASEOUT OF DEDUCTION FOR PERSONAL EXEMPTIONS.

(a) IN GENERAL.—Subsection (d) of section 151 (relating to exemption amount) is amended by striking paragraph (3).

(b) TECHNICAL AMENDMENTS.—

(1) Paragraph (6) of section 1(f) is amended—

(A) by striking “section 151(d)(4)” in subparagraph (A) and inserting “section 151(d)(3)”, and

(B) by striking “section 151(d)(4)(A)” in subparagraph (B) and inserting “section 151(d)(3)”.

(2) Paragraph (4) of section 151(d) is amended to read as follows:

“(3) INFLATION ADJUSTMENT.—In the case of any taxable year beginning in a calendar year after 1989, the dollar amount contained in paragraph (1) shall be increased by an amount equal to—

“(A) such dollar amount, multiplied by

“(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, by substituting ‘calendar year 1988’ for ‘calendar year 1992’ in subparagraph (B) thereof.”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2008.

## Subtitle B—Compliance With Congressional Budget Act

### SEC. 111. SUNSET OF PROVISIONS OF TITLE.

All provisions of, and amendments made by, this title which are in effect on September 30, 2011, shall cease to apply as of the close of September 30, 2011.

## TITLE II—CHILD TAX CREDIT

### Subtitle A—In General

#### SEC. 201. MODIFICATIONS TO CHILD TAX CREDIT.

(a) INCREASE IN PER CHILD AMOUNT.—Subsection (a) of section 24 (relating to child tax credit) is amended to read as follows:

“(a) ALLOWANCE OF CREDIT.—

“(1) IN GENERAL.—There shall be allowed as a credit against the tax imposed by this chapter for the taxable year with respect to each qualifying child of the taxpayer an amount equal to the per child amount.

“(2) PER CHILD AMOUNT.—For purposes of paragraph (1), the per child amount shall be determined as follows:

“In the case of any taxable year beginning in—	The per child amount is—
2001, 2002, or 2003 .....	\$600
2004, 2005, or 2006 .....	700
2007, 2008, or 2009 .....	800
2010 .....	900
2011 or thereafter .....	1,000.”.

(b) CREDIT ALLOWED AGAINST ALTERNATIVE MINIMUM TAX.—

(1) IN GENERAL.—Subsection (b) of section 24 (relating to child tax credit) is amended by adding at the end the following new paragraph:

“(3) LIMITATION BASED ON AMOUNT OF TAX.—The credit allowed under subsection (a) for any taxable year shall not exceed the excess of—

“(A) the sum of the regular tax liability (as defined in section 26(b)) plus the tax imposed by section 55, over

“(B) the sum of the credits allowable under this subpart (other than this section) and section 27 for the taxable year.”.

(2) CONFORMING AMENDMENTS.—

(A) The heading for section 24(b) is amended to read as follows: “LIMITATIONS.—”.

(B) The heading for section 24(b)(1) is amended to read as follows: “LIMITATION BASED ON ADJUSTED GROSS INCOME.—”.

(C) Section 24(d) is amended—

(i) by striking “section 26(a)” each place it appears and inserting “subsection (b)(3)”, and

(ii) in paragraph (1)(B) by striking “aggregate amount of credits allowed by this subpart” and inserting “amount of credit allowed by this section”.

(D) Paragraph (1) of section 26(a) is amended by inserting “(other than section 24)” after “this subpart”.

(E) Subsection (c) of section 23 is amended by striking “and section 1400C” and inserting “and sections 24 and 1400C”.

(F) Subparagraph (C) of section 25(e)(1) is amended by inserting “, 24,” after “sections 23”.

(G) Section 904(h) is amended by inserting “(other than section 24)” after “chapter”.

(H) Subsection (d) of section 1400C is amended by inserting “and section 24” after “this section”.

(c) REFUNDABLE CHILD CREDIT.—

(1) IN GENERAL.—So much of section 24(d) (relating to additional credit for families with 3 or more children) as precedes paragraph (2) is amended to read as follows:

“(d) PORTION OF CREDIT REFUNDABLE.—

“(1) IN GENERAL.—The aggregate credits allowed to a taxpayer under subpart C shall be increased by the lesser of—

“(A) the credit which would be allowed under this section without regard to this subsection and the limitation under subsection (b)(3), or

“(B) the amount by which the amount of credit allowed by this section (determined without regard to this subsection) would increase if the limitation imposed by subsection (b)(3) were increased by the greater of—

“(i) 15 percent of so much of the taxpayer's earned income (within the meaning of section 32) for the taxable year as exceeds \$10,000, or

“(ii) in the case of a taxpayer with 3 or more qualifying children, the excess (if any) of—

“(I) the taxpayer's social security taxes for the taxable year, over

“(II) the credit allowed under section 32 for the taxable year.

The amount of the credit allowed under this subsection shall not be treated as a credit allowed under this subpart and shall reduce the amount of credit otherwise allowable under subsection (a) without regard to subsection (b)(3).”.

(2) CONFORMING AMENDMENT.—Section 32 is amended by striking subsection (n).

(d) ELIMINATION OF REDUCTION OF CREDIT TO TAXPAYER SUBJECT TO ALTERNATIVE MINIMUM TAX PROVISION.—Section 24(d) is amended—

(1) by striking paragraph (2), and

(2) by redesignating paragraph (3) as paragraph (2).

(e) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 2000.

(2) SUBSECTION (b).—The amendments made by subsection (b) shall apply to taxable years beginning after December 31, 2001.

## Subtitle B—Compliance With Congressional Budget Act

### SEC. 211. SUNSET OF PROVISIONS OF TITLE.

All provisions of, and amendments made by, this title which are in effect on September 30, 2011, shall cease to apply as of the close of September 30, 2011.

### SEC. 212. RESTORATION OF PROVISIONS OF TITLE.

All provisions of, and amendments made by, this title which were terminated under section 211 shall begin to apply again as of October 1, 2011, as provided in each such provision or amendment.

## TITLE III—MARRIAGE PENALTY RELIEF

### Subtitle A—In General

#### SEC. 301. ELIMINATION OF MARRIAGE PENALTY IN STANDARD DEDUCTION.

(a) IN GENERAL.—Paragraph (2) of section 63(c) (relating to standard deduction) is amended—

(1) by striking “\$5,000” in subparagraph (A) and inserting “the applicable percentage of the dollar amount in effect under subparagraph (C) for the taxable year”; and

(2) by adding “or” at the end of subparagraph (B);

(3) by striking “in the case of” and all that follows in subparagraph (C) and inserting “in any other case.”; and

(4) by striking subparagraph (D).

(b) APPLICABLE PERCENTAGE.—Section 63(c) (relating to standard deduction) is amended by adding at the end the following new paragraph:

“(7) APPLICABLE PERCENTAGE.—For purposes of paragraph (2), the applicable percentage shall be determined in accordance with the following table:

#### “For taxable years

beginning in calendar year—	The applicable percentage is—
2005 .....	174
2006 .....	180
2007 .....	187
2008 .....	193
2009 and thereafter .....	200.”

(c) TECHNICAL AMENDMENTS.—

(1) Subparagraph (B) of section 1(f)(6), as amended by section 103(b), is amended by striking “(other than with” and all that follows through “shall be applied” and inserting “(other than with respect to sections 63(c)(4) and 151(d)(3)(A)) shall be applied”.

(2) Paragraph (4) of section 63(c) is amended by adding at the end the following flush sentence:

“The preceding sentence shall not apply to the amount referred to in paragraph (2)(A).”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2004.

#### SEC. 302. PHASEOUT OF MARRIAGE PENALTY IN 15-PERCENT BRACKET.

(a) IN GENERAL.—Section 1(f) (relating to adjustments in tax tables so that inflation will not result in tax increases) is amended by adding at the end the following new paragraph:

“(8) PHASEOUT OF MARRIAGE PENALTY IN 15-PERCENT BRACKET.—

“(A) IN GENERAL.—With respect to taxable years beginning after December 31, 2005, in prescribing the tables under paragraph (1)—

“(i) the maximum taxable income in the 15-percent rate bracket in the table contained in subsection (a) (and the minimum taxable income in the next higher taxable income bracket in such table) shall be the applicable percentage of the maximum taxable income in the 15-percent rate bracket in the table contained in subsection (c) (after any other adjustment under this subsection), and

“(ii) the comparable taxable income amounts in the table contained in subsection (d) shall be  $\frac{1}{2}$  of the amounts determined under clause (i).

“(B) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A), the applicable percentage shall be determined in accordance with the following table:

“For taxable years beginning in calendar year—	The applicable percentage is—
2005 .....	180
2006 .....	187
2007 .....	193
2008 and thereafter .....	200.

“(C) ROUNDING.—If any amount determined under subparagraph (A)(i) is not a multiple of \$50, such amount shall be rounded to the next lowest multiple of \$50.”.

(b) TECHNICAL AMENDMENTS.—

(1) Subparagraph (A) of section 1(f)(2) is amended by inserting “except as provided in paragraph (8),” before “by increasing”.

(2) The heading for subsection (f) of section 1 is amended by inserting “PHASEOUT OF MARRIAGE PENALTY IN 15-PERCENT BRACKET,” before “ADJUSTMENTS”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2004.

#### SEC. 303. MARRIAGE PENALTY RELIEF FOR EARNED INCOME CREDIT; EARNED INCOME TO INCLUDE ONLY AMOUNTS INCLUDIBLE IN GROSS INCOME; SIMPLIFICATION OF EARNED INCOME CREDIT.

(a) INCREASED PHASEOUT AMOUNT.—

(1) IN GENERAL.—Section 32(b)(2) (relating to amounts) is amended—

(A) by striking “AMOUNTS.—The earned” and inserting “AMOUNTS.—

“(A) IN GENERAL.—Subject to subparagraph (B), the earned”, and

(B) by adding at the end the following new subparagraph:

“(B) JOINT RETURNS.—In the case of a joint return filed by an eligible individual and such individual's spouse, the phaseout amount determined under subparagraph (A) shall be increased by \$3,000.”.

(2) INFLATION ADJUSTMENT.—Paragraph (1)(B) of section 32(j) (relating to inflation adjustments) is amended to read as follows:

“(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined—

“(i) in the case of amounts in subsections (b)(2)(A) and (i)(1), by substituting ‘calendar year 1995’ for ‘calendar year 1992’ in subparagraph (B) thereof, and

“(ii) in the case of the \$3,000 amount in subsection (b)(2)(B), by substituting ‘calendar year 2001’ for ‘calendar year 1992’ in subparagraph (B) of such section 1.”.

(3) ROUNDING.—Section 32(j)(2)(A) (relating to rounding) is amended by striking “subsection (b)(2)” and inserting “subsection (b)(2)(A) (after being increased under subparagraph (B) thereof)”.

(b) EARNED INCOME TO INCLUDE ONLY AMOUNTS INCLUDIBLE IN GROSS INCOME.—Clause (i) of section 32(c)(2)(A) (defining earned income) is amended by inserting “, but only if such amounts are includible in gross income for the taxable year” after “other employee compensation”.

(c) REPEAL OF REDUCTION OF CREDIT TO TAXPAYERS SUBJECT TO ALTERNATIVE MINIMUM TAX.—Section 32(h) is repealed.

(d) REPLACEMENT OF MODIFIED ADJUSTED GROSS INCOME WITH ADJUSTED GROSS INCOME.—

(1) IN GENERAL.—Section 32(a)(2)(B) is amended by striking “modified”.

(2) CONFORMING AMENDMENTS.—

(A) Section 32(c) is amended by striking paragraph (5).

(B) Section 32(f)(2)(B) is amended by striking “modified” each place it appears.

(e) RELATIONSHIP TEST.—

(1) IN GENERAL.—Clause (i) of section 32(c)(3)(B) (relating to relationship test) is amended to read as follows:

“(i) IN GENERAL.—An individual bears a relationship to the taxpayer described in this subparagraph if such individual is—

“(I) a son, daughter, stepson, or stepdaughter, or a descendant of any such individual,

“(II) a brother, sister, stepbrother, or stepsister, or a descendant of any such individual, who the taxpayer cares for as the taxpayer's own child, or

“(III) an eligible foster child of the taxpayer.”.

(2) ELIGIBLE FOSTER CHILD.—

(A) IN GENERAL.—Clause (iii) of section 32(c)(3)(B) is amended to read as follows:

“(iii) ELIGIBLE FOSTER CHILD.—For purposes of clause (i), the term ‘eligible foster child’ means an individual not described in subclause (I) or (II) of clause (i) who—

“(I) is placed with the taxpayer by an authorized placement agency, and

“(II) the taxpayer cares for as the taxpayer's own child.”.

(B) CONFORMING AMENDMENT.—Section 32(c)(3)(A)(ii) is amended by striking “except as provided in subparagraph (B)(iii).”.

(f) 2 OR MORE CLAIMING QUALIFYING CHILD.—Section 32(c)(1)(C) is amended to read as follows:

“(C) 2 OR MORE CLAIMING QUALIFYING CHILD.—

“(i) IN GENERAL.—Except as provided in clause (ii), if (but for this paragraph) an individual may be claimed, and is claimed, as a qualifying child by 2 or more taxpayers for a taxable year beginning in the same calendar year, such individual shall be treated as the qualifying child of the taxpayer who is—

“(I) a parent of the individual, or

“(II) if subclause (I) does not apply, the taxpayer with the highest adjusted gross income for such taxable year.

“(ii) MORE THAN 1 CLAIMING CREDIT.—If the parents claiming the credit with respect to any qualifying child do not file a joint return together, such child shall be treated as the qualifying child of—

“(I) the parent with whom the child resided for the longest period of time during the taxable year, or

“(II) if the child resides with both parents for the same amount of time during such taxable year, the parent with the highest adjusted gross income.”.

(g) EXPANSION OF MATHEMATICAL ERROR AUTHORITY.—Paragraph (2) of section 6213(g) is amended by striking “and” at the end of subparagraph (K), by striking the period at the end of subparagraph (L) and inserting “, and”, and by inserting after subparagraph (L) the following new subparagraph:

“(M) the entry on the return claiming the credit under section 32 with respect to a child if, according to the Federal Case Registry of Child Support Orders established under section 453(h) of the Social Security Act, the taxpayer is a noncustodial parent of such child.”.

(h) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

(2) SUBSECTION (g).—The amendment made by subsection (g) shall take effect on January 1, 2004.

#### **Subtitle B—Compliance With Congressional Budget Act**

#### **SEC. 311. SUNSET OF PROVISIONS OF TITLE.**

All provisions of, and amendments made by, this title which are in effect on September 30, 2011, shall cease to apply as of the close of September 30, 2011.

### **TITLE IV—AFFORDABLE EDUCATION PROVISIONS**

#### **Subtitle A—Education Savings Incentives**

#### **SEC. 401. MODIFICATIONS TO EDUCATION INDIVIDUAL RETIREMENT ACCOUNTS.**

(a) MAXIMUM ANNUAL CONTRIBUTIONS.—

(1) IN GENERAL.—Section 530(b)(1)(A)(iii) (defining education individual retirement account) is amended by striking “\$500” and inserting “\$2,000”.

(2) CONFORMING AMENDMENT.—Section 4973(e)(1)(A) is amended by striking “\$500” and inserting “\$2,000”.

(b) MODIFICATION OF AGI LIMITS TO REMOVE MARRIAGE PENALTY.—Section 530(c)(1) (relating to reduction in permitted contributions based on adjusted gross income) is amended—

(1) by striking “\$150,000” in subparagraph (A)(ii) and inserting “\$190,000”, and

(2) by striking “\$10,000” in subparagraph (B) and inserting “\$30,000”.

(c) TAX-FREE EXPENDITURES FOR ELEMENTARY AND SECONDARY SCHOOL EXPENSES.—

(1) IN GENERAL.—Section 530(b)(2) (defining qualified higher education expenses) is amended to read as follows:

“(2) QUALIFIED EDUCATION EXPENSES.—

“(A) IN GENERAL.—The term ‘qualified education expenses’ means—

“(i) qualified higher education expenses (as defined in section 529(e)(3)), and

“(ii) qualified elementary and secondary education expenses (as defined in paragraph (4)).”.

“(B) QUALIFIED STATE TUITION PROGRAMS.—Such term shall include any contribution to a qualified State tuition program (as defined in section 529(b)) on behalf of the designated beneficiary (as defined in section 529(e)(1)); but there shall be no increase in the investment in the contract for purposes of applying section 72 by reason of any portion of such contribution which is not includible in gross income by reason of subsection (d)(2).”.

(2) QUALIFIED ELEMENTARY AND SECONDARY EDUCATION EXPENSES.—Section 530(b) (relating to definitions and special rules) is amended by adding at the end the following new paragraph:

“(4) QUALIFIED ELEMENTARY AND SECONDARY EDUCATION EXPENSES.—

“(A) IN GENERAL.—The term ‘qualified elementary and secondary education expenses’ means—

“(i) expenses for tuition, fees, academic tutoring, special needs services, books, supplies, computer equipment (including related software and services), and other equipment which are incurred in connection with the enrollment or attendance of the designated beneficiary of the trust as an elementary or secondary school student at a public, private, or religious school, and

“(ii) expenses for room and board, uniforms, transportation, and supplementary items and services (including extended day programs) which are required or provided by a public, private, or religious school in connection with such enrollment or attendance.

“(B) SCHOOL.—The term ‘school’ means any school which provides elementary education or secondary education (kindergarten through grade 12), as determined under State law.”.

(3) CONFORMING AMENDMENTS.—Section 530 is amended—

(A) by striking “higher” each place it appears in subsections (b)(1) and (d)(2), and

(B) by striking “HIGHER” in the heading for subsection (d)(2).

(d) WAIVER OF AGE LIMITATIONS FOR CHILDREN WITH SPECIAL NEEDS.—Section 530(b)(1) (defining education individual retirement account) is amended by adding at the end the following flush sentence:

“The age limitations in subparagraphs (A)(ii) and (E), and paragraphs (5) and (6) of subsection (d), shall not apply to any designated beneficiary with special needs (as determined under regulations prescribed by the Secretary).”.

(e) ENTITIES PERMITTED TO CONTRIBUTE TO ACCOUNTS.—Section 530(c)(1) (relating to reduction in permitted contributions based on adjusted gross income) is amended by striking “The maximum amount which a contributor” and inserting “In the case of a contributor who is an individual, the maximum amount the contributor”.

(f) TIME WHEN CONTRIBUTIONS DEEMED MADE.—

(1) IN GENERAL.—Section 530(b) (relating to definitions and special rules), as amended by subsection (c)(2), is amended by adding at the end the following new paragraph:

“(5) TIME WHEN CONTRIBUTIONS DEEMED MADE.—An individual shall be deemed to have made a contribution to an education individual retirement account on the last day of the preceding taxable year if the contribution is made on account of such taxable year and is made not later than the time prescribed by law for filing the return for such taxable year (not including extensions thereof).”.

(2) EXTENSION OF TIME TO RETURN EXCESS CONTRIBUTIONS.—Subparagraph (C) of section 530(d)(4) (relating to additional tax for distributions not used for educational expenses) is amended—

(A) by striking clause (i) and inserting the following new clause:

“(i) such distribution is made before the first day of the sixth month of the taxable year following the taxable year, and”, and

(B) by striking “DUE DATE OF RETURN” in the heading and inserting “CERTAIN DATE”.

(g) COORDINATION WITH HOPE AND LIFETIME LEARNING CREDITS AND QUALIFIED TUITION PROGRAMS.—

(1) IN GENERAL.—Section 530(d)(2)(C) is amended to read as follows:

“(C) COORDINATION WITH HOPE AND LIFETIME LEARNING CREDITS AND QUALIFIED TUITION PROGRAMS.—For purposes of subparagraph (A)—

“(i) CREDIT COORDINATION.—The total amount of qualified higher education expenses with respect to an individual for the taxable year shall be reduced—

“(I) as provided in section 25A(g)(2), and  
“(II) by the amount of such expenses which were taken into account in determining the credit allowed to the taxpayer or any other person under section 25A.

“(ii) COORDINATION WITH QUALIFIED TUITION PROGRAMS.—If, with respect to an individual for any taxable year—

“(I) the aggregate distributions during such year to which subparagraph (A) and section 529(c)(3)(B) apply, exceed

“(II) the total amount of qualified education expenses (after the application of clause (i)) for such year, the taxpayer shall allocate such expenses among such distributions for purposes of determining the amount of the exclusion under subparagraph (A) and section 529(c)(3)(B).”.

(2) CONFORMING AMENDMENTS.—

(A) Subsection (e) of section 25A is amended to read as follows:

“(e) ELECTION NOT TO HAVE SECTION APPLY.—A taxpayer may elect not to have this section apply with respect to the qualified tuition and related expenses of an individual for any taxable year.”.

(B) Section 135(d)(2)(A) is amended by striking “allowable” and inserting “allowed”.

(C) Section 530(d)(2)(D) is amended—

(i) by striking “or credit”, and  
(ii) by striking “CREDIT OR” in the heading.

(D) Section 4973(e)(1) is amended by adding “and” at the end of subparagraph (A), by striking subparagraph (B), and by redesignating subparagraph (C) as subparagraph (B).

(h) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

#### SEC. 402. MODIFICATIONS TO QUALIFIED TUITION PROGRAMS.

(a) ELIGIBLE EDUCATIONAL INSTITUTIONS PERMITTED TO MAINTAIN QUALIFIED TUITION PROGRAMS.—

(1) IN GENERAL.—Section 529(b)(1) (defining qualified State tuition program) is amended—

(A) by inserting “or by 1 or more eligible educational institutions” after “maintained by a State or agency or instrumentality thereof” in the matter preceding subparagraph (A), and

(B) by adding at the end the following new flush sentence:

“Except to the extent provided in regulations, a program established and maintained by 1 or more eligible educational institutions shall not be treated as a qualified tuition program unless such program has re-

ceived a ruling or determination that such program meets the applicable requirements for a qualified tuition program.”.

(2) PRIVATE QUALIFIED TUITION PROGRAMS LIMITED TO BENEFIT PLANS.—Clause (ii) of section 529(b)(1)(A) is amended by inserting “in the case of a program established and maintained by a State or agency or instrumentality thereof,” before “may make”.

(3) CONFORMING AMENDMENTS.—

(A) Sections 72(e)(9), 135(c)(2)(C), 135(d)(1)(D), 529, 530(b)(2)(B), 4973(e), and 6693(a)(2)(C) are amended by striking “qualified State tuition” each place it appears and inserting “qualified tuition”.

(B) The headings for sections 72(e)(9) and 135(c)(2)(C) are amended by striking “QUALIFIED STATE TUITION” each place it appears and inserting “QUALIFIED TUITION”.

(C) The headings for sections 529(b) and 530(b)(2)(B) are amended by striking “QUALIFIED STATE TUITION” each place it appears and inserting “QUALIFIED TUITION”.

(D) The heading for section 529 is amended by striking “STATE”.

(E) The item relating to section 529 in the table of sections for part VIII of subchapter F of chapter 1 is amended by striking “State”.

(b) EXCLUSION FROM GROSS INCOME OF EDUCATION DISTRIBUTIONS FROM QUALIFIED TUITION PROGRAMS.—

(1) IN GENERAL.—Section 529(c)(3)(B) (relating to distributions) is amended to read as follows:

“(B) DISTRIBUTIONS FOR QUALIFIED HIGHER EDUCATION EXPENSES.—For purposes of this paragraph—

“(i) IN-KIND DISTRIBUTIONS.—No amount shall be includible in gross income under subparagraph (A) by reason of a distribution which consists of providing a benefit to the distributee which, if paid for by the distributee, would constitute payment of a qualified higher education expense.

“(ii) CASH DISTRIBUTIONS.—In the case of distributions not described in clause (i), if—

“(I) such distributions do not exceed the qualified higher education expenses (reduced by expenses described in clause (ii)), no amount shall be includible in gross income, and

“(II) in any other case, the amount otherwise includible in gross income shall be reduced by an amount which bears the same ratio to such amount as such expenses bear to such distributions.

“(iii) EXCEPTION FOR INSTITUTIONAL PROGRAMS.—In the case of any taxable year beginning before January 1, 2004, clauses (i) and (ii) shall not apply with respect to any distribution during such taxable year under a qualified tuition program established and maintained by 1 or more eligible educational institutions.

“(iv) TREATMENT AS DISTRIBUTIONS.—Any benefit furnished to a designated beneficiary under a qualified tuition program shall be treated as a distribution to the beneficiary for purposes of this paragraph.

“(v) COORDINATION WITH HOPE AND LIFETIME LEARNING CREDITS.—The total amount of qualified higher education expenses with respect to an individual for the taxable year shall be reduced—

“(I) as provided in section 25A(g)(2), and  
“(II) by the amount of such expenses which were taken into account in determining the credit allowed to the taxpayer or any other person under section 25A.

“(vi) COORDINATION WITH EDUCATION INDIVIDUAL RETIREMENT ACCOUNTS.—If, with respect to an individual for any taxable year—

“(I) the aggregate distributions to which clauses (i) and (ii) and section 530(d)(2)(A) apply, exceed

“(II) the total amount of qualified higher education expenses otherwise taken into account under clauses (i) and (ii) (after the application of clause (v)) for such year, the taxpayer shall allocate such expenses among such distributions for purposes of determining the amount of the exclusion under clauses (i) and (ii) and section 530(d)(2)(A).”.

(2) CONFORMING AMENDMENTS.—

(A) Section 135(d)(2)(B) is amended by striking “the exclusion under section 530(d)(2)” and inserting “the exclusions under sections 529(c)(3)(B) and 530(d)(2)”.

(B) Section 221(e)(2)(A) is amended by inserting “529,” after “135,”.

(c) ROLLOVER TO DIFFERENT PROGRAM FOR BENEFIT OF SAME DESIGNATED BENEFICIARY.—Section 529(c)(3)(C) (relating to change in beneficiaries) is amended—

(1) by striking “transferred to the credit” in clause (i) and inserting “transferred—

“(I) to another qualified tuition program for the benefit of the designated beneficiary, or

“(II) to the credit”,

(2) by adding at the end the following new clause:

“(iii) LIMITATION ON CERTAIN ROLLOVERS.—Clause (i)(I) shall only apply to the first 3 transfers with respect to a designated beneficiary.”, and

(3) by inserting “OR PROGRAMS” after “BENEFICIARIES” in the heading.

(d) MEMBER OF FAMILY INCLUDES FIRST COUSIN.—Section 529(e)(2) (defining member of family) is amended by striking “and” at the end of subparagraph (B), by striking the period at the end of subparagraph (C) and by inserting “; and”, and by adding at the end the following new subparagraph:

“(D) any first cousin of such beneficiary.”.

(e) ADJUSTMENT OF LIMITATION ON ROOM AND BOARD DISTRIBUTIONS.—Section 529(e)(3)(B)(ii) is amended to read as follows:

“(ii) LIMITATION.—The amount treated as qualified higher education expenses by reason of clause (i) shall not exceed—

“(I) the allowance (applicable to the student) for room and board included in the cost of attendance (as defined in section 472 of the Higher Education Act of 1965 (20 U.S.C. 108711), as in effect on the date of the enactment of the Restoring Earnings To Lift Individuals and Empower Families (RELIEF) Act of 2001) as determined by the eligible educational institution for such period, or

“(II) if greater, the actual invoice amount the student residing in housing owned or operated by the eligible educational institution is charged by such institution for room and board costs for such period.”.

(f) TECHNICAL AMENDMENTS.—Section 529(c)(3)(D) is amended—

(1) by inserting “except to the extent provided by the Secretary,” before “all distributions” in clause (ii), and

(2) by inserting “except to the extent provided by the Secretary,” before “the value” in clause (iii).

(g) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

#### Subtitle B—Educational Assistance

#### SEC. 411. PERMANENT EXTENSION OF EXCLUSION FOR EMPLOYER-PROVIDED EDUCATIONAL ASSISTANCE.

(a) IN GENERAL.—Section 127 (relating to exclusion for educational assistance programs) is amended by striking subsection (d) and by redesignating subsection (e) as subsection (d).

(b) REPEAL OF LIMITATION ON GRADUATE EDUCATION.—The last sentence of section 127(c)(1) is amended by striking “, and such term also does not include any payment for, or the provision of any benefits with respect to, any graduate level course of a kind normally taken by an individual pursuing a program leading to a law, business, medical, or other advanced academic or professional degree”.

(c) CONFORMING AMENDMENT.—Section 51A(b)(5)(B)(iii) is amended by striking “or would be so excludable but for section 127(d)”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to expenses relating to courses beginning after December 31, 2001.

**SEC. 412. ELIMINATION OF 60-MONTH LIMIT AND INCREASE IN INCOME LIMITATION ON STUDENT LOAN INTEREST DEDUCTION.**

(a) ELIMINATION OF 60-MONTH LIMIT.—

(1) IN GENERAL.—Section 221 (relating to interest on education loans), as amended by section 402(b)(2)(B), is amended by striking subsection (d) and by redesignating subsections (e), (f), and (g) as subsections (d), (e), and (f), respectively.

(2) CONFORMING AMENDMENT.—Section 6050S(e) is amended by striking “section 221(e)(1)” and inserting “section 221(d)(1)”.

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply with respect to any loan interest paid after December 31, 2001, in taxable years ending after such date.

(b) INCREASE IN INCOME LIMITATION.—

(1) IN GENERAL.—Section 221(b)(2)(B) (relating to amount of reduction) is amended by striking clauses (i) and (ii) and inserting the following:

“(i) the excess of—

“(I) the taxpayer’s modified adjusted gross income for such taxable year, over

“(II) \$50,000 (\$100,000 in the case of a joint return), bears to

“(ii) \$15,000 (\$30,000 in the case of a joint return).”.

(2) CONFORMING AMENDMENT.—Section 221(g)(1) is amended by striking “\$40,000 and \$60,000 amounts” and inserting “\$50,000 and \$100,000 amounts”.

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to taxable years ending after December 31, 2001.

**SEC. 413. EXCLUSION OF CERTAIN AMOUNTS RECEIVED UNDER THE NATIONAL HEALTH SERVICE CORPS SCHOLARSHIP PROGRAM AND THE F. EDWARD HEBERT ARMED FORCES HEALTH PROFESSIONS SCHOLARSHIP AND FINANCIAL ASSISTANCE PROGRAM.**

(a) IN GENERAL.—Section 117(c) (relating to the exclusion from gross income amounts received as a qualified scholarship) is amended—

(1) by striking “Subsections (a)” and inserting the following:

“(1) IN GENERAL.—Except as provided in paragraph (2), subsections (a)”, and

(2) by adding at the end the following new paragraph:

“(2) EXCEPTIONS.—Paragraph (1) shall not apply to any amount received by an individual under—

“(A) the National Health Service Corps Scholarship Program under section 338A(g)(1)(A) of the Public Health Service Act, or

“(B) the Armed Forces Health Professions Scholarship and Financial Assistance program under subchapter I of chapter 105 of title 10, United States Code.”.

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply to

amounts received in taxable years beginning after December 31, 2001.

**Subtitle C—Liberalization of Tax-Exempt Financing Rules for Public School Construction**

**SEC. 421. ADDITIONAL INCREASE IN ARBITRAGE REBATE EXCEPTION FOR GOVERNMENTAL BONDS USED TO FINANCE EDUCATIONAL FACILITIES.**

(a) IN GENERAL.—Section 148(f)(4)(D)(vii) (relating to increase in exception for bonds financing public school capital expenditures) is amended by striking “\$5,000,000” the second place it appears and inserting “\$10,000,000”.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to obligations issued in calendar years beginning after December 31, 2001.

**SEC. 422. TREATMENT OF QUALIFIED PUBLIC EDUCATIONAL FACILITY BONDS AS EXEMPT FACILITY BONDS.**

(a) TREATMENT AS EXEMPT FACILITY BOND.—Subsection (a) of section 142 (relating to exempt facility bond) is amended by striking “or” at the end of paragraph (11), by striking the period at the end of paragraph (12) and inserting “, or”, and by adding at the end the following new paragraph:

“(13) qualified public educational facilities.”.

(b) QUALIFIED PUBLIC EDUCATIONAL FACILITIES.—Section 142 (relating to exempt facility bond) is amended by adding at the end the following new subsection:

“(k) QUALIFIED PUBLIC EDUCATIONAL FACILITIES.—

“(1) IN GENERAL.—For purposes of subsection (a)(13), the term ‘qualified public educational facility’ means any school facility which is—

“(A) part of a public elementary school or a public secondary school, and

“(B) owned by a private, for-profit corporation pursuant to a public-private partnership agreement with a State or local educational agency described in paragraph (2).

“(2) PUBLIC-PRIVATE PARTNERSHIP AGREEMENT DESCRIBED.—A public-private partnership agreement is described in this paragraph if it is an agreement—

“(A) under which the corporation agrees—

“(i) to do 1 or more of the following: construct, rehabilitate, refurbish, or equip a school facility, and

“(ii) at the end of the term of the agreement, to transfer the school facility to such agency for no additional consideration, and

“(B) the term of which does not exceed the term of the issue to be used to provide the school facility.

“(3) SCHOOL FACILITY.—For purposes of this subsection, the term ‘school facility’ means—

“(A) any school building,

“(B) any functionally related and subordinate facility and land with respect to such building, including any stadium or other facility primarily used for school events, and

“(C) any property, to which section 168 applies (or would apply but for section 179), for use in a facility described in subparagraph (A) or (B).

“(4) PUBLIC SCHOOLS.—For purposes of this subsection, the terms ‘elementary school’ and ‘secondary school’ have the meanings given such terms by section 14101 of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 8801), as in effect on the date of the enactment of this subsection.

“(5) ANNUAL AGGREGATE FACE AMOUNT OF TAX-EXEMPT FINANCING.—

“(A) IN GENERAL.—An issue shall not be treated as an issue described in subsection

(a)(13) if the aggregate face amount of bonds issued by the State pursuant thereto (when added to the aggregate face amount of bonds previously so issued during the calendar year) exceeds an amount equal to the greater of—

“(i) \$10 multiplied by the State population, or

“(ii) \$5,000,000.

“(B) ALLOCATION RULES.—

“(1) IN GENERAL.—Except as otherwise provided in this subparagraph, the State may allocate the amount described in subparagraph (A) for any calendar year in such manner as the State determines appropriate.

“(ii) RULES FOR CARRYFORWARD OF UNUSED LIMITATION.—A State may elect to carry forward an unused limitation for any calendar year for 3 calendar years following the calendar year in which the unused limitation arose under rules similar to the rules of section 146(f), except that the only purpose for which the carryforward may be elected is the issuance of exempt facility bonds described in subsection (a)(13).”.

(c) EXEMPTION FROM GENERAL STATE VOLUME CAPS.—Paragraph (3) of section 146(g) (relating to exception for certain bonds) is amended—

(1) by striking “or (12)” and inserting “(12), or (13)”, and

(2) by striking “and environmental enhancements of hydroelectric generating facilities” and inserting “environmental enhancements of hydroelectric generating facilities, and qualified public educational facilities”.

(d) EXEMPTION FROM LIMITATION ON USE FOR LAND ACQUISITION.—Section 147(h) (relating to certain rules not to apply to mortgage revenue bonds, qualified student loan bonds, and qualified 501(c)(3) bonds) is amended by adding at the end the following new paragraph:

“(3) EXEMPT FACILITY BONDS FOR QUALIFIED PUBLIC-PRIVATE SCHOOLS.—Subsection (c) shall not apply to any exempt facility bond issued as part of an issue described in section 142(a)(13) (relating to qualified public educational facilities).”.

(e) CONFORMING AMENDMENT.—The heading for section 147(h) is amended by striking “MORTGAGE REVENUE BONDS, QUALIFIED STUDENT LOAN BONDS, AND QUALIFIED 501(c)(3) BONDS” and inserting “CERTAIN BONDS”.

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to bonds issued after December 31, 2001.

**Subtitle D—Other Provisions**

**SEC. 431. DEDUCTION FOR HIGHER EDUCATION EXPENSES.**

(a) DEDUCTION ALLOWED.—Part VII of subchapter B of chapter 1 (relating to additional itemized deductions for individuals) is amended by redesignating section 222 as section 223 and by inserting after section 221 the following:

**“SEC. 222. QUALIFIED TUITION AND RELATED EXPENSES.**

“(a) ALLOWANCE OF DEDUCTION.—In the case of an individual, there shall be allowed as a deduction an amount equal to the qualified tuition and related expenses paid by the taxpayer during the taxable year.

“(b) DOLLAR LIMITATIONS.—

“(1) IN GENERAL.—The amount allowed as a deduction under subsection (a) with respect to the taxpayer for any taxable year shall not exceed the applicable dollar limit.

“(2) APPLICABLE DOLLAR LIMIT.—

“(A) 2002 AND 2003.—In the case of a taxable year beginning in 2002 or 2003, the applicable dollar limit shall be equal to—

“(i) in the case of a taxpayer whose adjusted gross income for the taxable year does



not exceed \$65,000 (\$130,000 in the case of a joint return), \$3,000, and—

“(ii) in the case of any other taxpayer, zero.

“(B) 2004 AND 2005.—In the case of a taxable year beginning in 2004 or 2005, the applicable dollar amount shall be equal to—

“(i) in the case of a taxpayer whose adjusted gross income for the taxable year does not exceed \$65,000 (\$130,000 in the case of a joint return), \$5,000,

“(ii) in the case of a taxpayer not described in clause (i) whose adjusted gross income for the taxable year does not exceed \$80,000 (\$160,000 in the case of a joint return), \$2,000, and

“(iii) in the case of any other taxpayer, zero.

“(C) ADJUSTED GROSS INCOME.—For purposes of this paragraph, adjusted gross income shall be determined—

“(i) without regard to this section and sections 911, 931, and 933, and

“(ii) after application of sections 86, 135, 137, 219, 221, and 469.

“(c) NO DOUBLE BENEFIT.—

“(1) IN GENERAL.—No deduction shall be allowed under subsection (a) for any expense for which a deduction is allowed to the taxpayer under any other provision of this chapter.

“(2) COORDINATION WITH OTHER EDUCATION INCENTIVES.—

“(A) DENIAL OF DEDUCTION IF CREDIT ELECTED.—No deduction shall be allowed under subsection (a) for a taxable year with respect to the qualified tuition and related expenses with respect to an individual if the taxpayer or any other person elects to have section 25A apply with respect to such individual for such year.

“(B) COORDINATION WITH EXCLUSIONS.—The total amount of qualified tuition and related expenses shall be reduced by the amount of such expenses taken into account in determining any amount excluded under section 135, 529(c)(1), or 530(d)(2).

“(3) DEPENDENTS.—No deduction shall be allowed under subsection (a) to any individual with respect to whom a deduction under section 151 is allowable to another taxpayer for a taxable year beginning in the calendar year in which such individual's taxable year begins.

“(d) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

“(1) QUALIFIED TUITION AND RELATED EXPENSES.—The term ‘qualified tuition and related expenses’ has the meaning given such term by section 25A(f). Such expenses shall be reduced in the same manner as under section 25A(g)(2).

“(2) IDENTIFICATION REQUIREMENT.—No deduction shall be allowed under subsection (a) to a taxpayer with respect to the qualified tuition and related expenses of an individual unless the taxpayer includes the name and taxpayer identification number of the individual on the return of tax for the taxable year.

“(3) LIMITATION ON TAXABLE YEAR OF DEDUCTION.—

“(A) IN GENERAL.—A deduction shall be allowed under subsection (a) for qualified tuition and related expenses for any taxable year only to the extent such expenses are in connection with enrollment at an institution of higher education during the taxable year.

“(B) CERTAIN PREPAYMENTS ALLOWED.—Subparagraph (A) shall not apply to qualified tuition and related expenses paid during a taxable year if such expenses are in connection with an academic term beginning during such taxable year or during the first 3 months of the next taxable year.

“(4) NO DEDUCTION FOR MARRIED INDIVIDUALS FILING SEPARATE RETURNS.—If the taxpayer is a married individual (within the meaning of section 7703), this section shall apply only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

“(5) NONRESIDENT ALIENS.—If the taxpayer is a nonresident alien individual for any portion of the taxable year, this section shall apply only if such individual is treated as a resident alien of the United States for purposes of this chapter by reason of an election under subsection (g) or (h) of section 6013.

“(6) REGULATIONS.—The Secretary may prescribe such regulations as may be necessary or appropriate to carry out this section, including regulations requiring record-keeping and information reporting.

“(e) TERMINATION.—This section shall not apply to taxable years beginning after December 31, 2005.”

(b) DEDUCTION ALLOWED IN COMPUTING ADJUSTED GROSS INCOME.—Section 62(a) is amended by inserting after paragraph (17) the following:

“(18) HIGHER EDUCATION EXPENSES.—The deduction allowed by section 222.”

(c) CONFORMING AMENDMENTS.—

(1) Sections 86(b)(2), 135(c)(4), 137(b)(3), and 219(g)(3) are each amended by inserting “222,” after “221.”

(2) Section 221(b)(2)(C) is amended by inserting “222,” before “911.”

(3) Section 469(i)(3)(E) is amended by striking “and 221” and inserting “, 221, and 222”.

(4) The table of sections for part VII of subchapter B of chapter 1 is amended by striking the item relating to section 222 and inserting the following:

“Sec. 222. Qualified tuition and related expenses.

“Sec. 223. Cross reference.”

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to payments made in taxable years beginning after December 31, 2001.

#### SEC. 432. CREDIT FOR INTEREST ON HIGHER EDUCATION LOANS.

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 (relating to non-refundable personal credits) is amended by inserting after section 25A the following new section:

#### “SEC. 25B. INTEREST ON HIGHER EDUCATION LOANS.

“(a) ALLOWANCE OF CREDIT.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the interest paid by the taxpayer during the taxable year on any qualified education loan.

“(b) MAXIMUM CREDIT.—

“(1) IN GENERAL.—Except as provided in paragraph (2), the credit allowed by subsection (a) for the taxable year shall not exceed \$500.

“(2) LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.—

“(A) IN GENERAL.—If the modified adjusted gross income of the taxpayer for the taxable year exceeds \$35,000 (\$70,000 in the case of a joint return), the amount which would (but for this paragraph) be allowable as a credit under this section shall be reduced (but not below zero) by the amount which bears the same ratio to the amount which would be so allowable as such excess bears to \$10,000 (\$20,000 in the case of a joint return).

“(B) MODIFIED ADJUSTED GROSS INCOME.—The term ‘modified adjusted gross income’ means adjusted gross income determined without regard to sections 911, 931, and 933.

“(C) INFLATION ADJUSTMENT.—In the case of any taxable year beginning after 2009, the \$35,000 and \$70,000 amounts referred to in subparagraph (A) shall be increased by an amount equal to—

“(i) such dollar amount, multiplied by

“(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, by substituting ‘2008’ for ‘1992’.

“(D) ROUNDING.—If any amount as adjusted under subparagraph (C) is not a multiple of \$50, such amount shall be rounded to the nearest multiple of \$50.

“(c) DEPENDENTS NOT ELIGIBLE FOR CREDIT.—No credit shall be allowed by this section to an individual for the taxable year if a deduction under section 151 with respect to such individual is allowed to another taxpayer for the taxable year beginning in the calendar year in which such individual's taxable year begins.

“(d) LIMIT ON PERIOD CREDIT ALLOWED.—A credit shall be allowed under this section only with respect to interest paid on any qualified education loan during the first 60 months (whether or not consecutive) in which interest payments are required. For purposes of this subsection, any loan and all refinancings of such loan shall be treated as 1 loan. Such 60 months shall be determined in the manner prescribed by the Secretary in the case of multiple loans which are refinanced by, or serviced as, a single loan and in the case of loans incurred before January 1, 2009.

“(e) DEFINITIONS.—For purposes of this section—

“(1) QUALIFIED EDUCATION LOAN.—The term ‘qualified education loan’ has the meaning given such term by section 221(e)(1).

“(2) DEPENDENT.—The term ‘dependent’ has the meaning given such term by section 152.

“(f) SPECIAL RULES.—

“(1) DENIAL OF DOUBLE BENEFIT.—No credit shall be allowed under this section if any amount of interest on a qualified education loan is taken into account for any deduction under any other provision of this chapter for the taxable year.

“(2) MARRIED COUPLES MUST FILE JOINT RETURN.—If the taxpayer is married at the close of the taxable year, the credit shall be allowed under subsection (a) only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

“(3) MARITAL STATUS.—Marital status shall be determined in accordance with section 7703.”

(b) CONFORMING AMENDMENT.—The table of sections for subpart A of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 25A the following new item:

“Sec. 25B. Interest on higher education loans.”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to any qualified education loan (as defined in section 25B(e)(1) of the Internal Revenue Code of 1986, as added by this section) incurred on, before, or after December 31, 2008, but only with respect to any loan interest payment due in taxable years beginning after December 31, 2008.

#### Subtitle E—Compliance With Congressional Budget Act

#### SEC. 441. SUNSET OF PROVISIONS OF TITLE.

All provisions of, and amendments made by, this title which are in effect on September 30, 2011, shall cease to apply as of the close of September 30, 2011.



# **TITLE V—ESTATE, GIFT, AND GENERATION-SKIPPING TRANSFER TAX PROVISIONS**

## **Subtitle A—Repeal of Estate and Generation-Skipping Transfer Taxes**

### **SEC. 501. REPEAL OF ESTATE AND GENERATION-SKIPPING TRANSFER TAXES.**

(a) ESTATE TAX REPEAL.—Subchapter C of chapter 11 of subtitle B (relating to miscellaneous) is amended by adding at the end the following new section:

#### **“SEC. 2210. TERMINATION.**

“(a) IN GENERAL.—Except as provided in subsection (b), this chapter shall not apply to the estates of decedents dying after December 31, 2010.

“(b) CERTAIN DISTRIBUTIONS FROM QUALIFIED DOMESTIC TRUSTS.—In applying section 2056A with respect to the surviving spouse of a decedent dying before January 1, 2011—

“(1) section 2056A(b)(1)(A) shall not apply to distributions made after December 31, 2021, and

“(2) section 2056A(b)(1)(B) shall not apply after December 31, 2010.”.

(b) GENERATION-SKIPPING TRANSFER TAX REPEAL.—Subchapter G of chapter 13 of subtitle B (relating to administration) is amended by adding at the end the following new section:

#### **“SEC. 2664. TERMINATION.**

“This chapter shall not apply to generation-skipping transfers made after December 31, 2010.”.

#### **(c) CONFORMING AMENDMENTS.—**

(1) The table of sections for subchapter C of chapter 11 is amended by adding at the end the following new item:

“Sec. 2210. Termination.”.

(2) The table of sections for subchapter G of chapter 13 is amended by adding at the end the following new item:

“Sec. 2664. Termination.”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to the estates of decedents dying, and generation-skipping transfers made, after December 31, 2010.

## **Subtitle B—Reductions of Estate and Gift Tax Rates**

### **SEC. 511. ADDITIONAL REDUCTIONS OF ESTATE AND GIFT TAX RATES.**

(a) MAXIMUM RATE OF TAX REDUCED TO 50 PERCENT.—The table contained in section 2001(c)(1) is amended by striking the two highest brackets and inserting the following:

“Over \$2,500,000 ..... \$1,025,800, plus 50% of the excess over \$2,500,000.”.

(b) REPEAL OF PHASEOUT OF GRADUATED RATES.—Subsection (c) of section 2001 is amended by striking paragraph (2).

(c) ADDITIONAL REDUCTIONS OF MAXIMUM RATE OF TAX.—Subsection (c) of section 2001, as amended by subsection (b), is amended by adding at the end the following new paragraph:

“(2) PHASEDOWN OF MAXIMUM RATE OF TAX.—

“(A) IN GENERAL.—In the case of estates of decedents dying, and gifts made, in calendar years after 2002 and before 2011, the tentative tax under this subsection shall be determined by using a table prescribed by the Secretary (in lieu of using the table contained in paragraph (1)) which is the same as such table; except that—

“(i) the maximum rate of tax for any calendar year shall be determined in the table under subparagraph (B), and

“(ii) the brackets and the amounts setting forth the tax shall be adjusted to the extent

necessary to reflect the adjustments under subparagraph (A).

“(B) MAXIMUM RATE.—

<b>“Calendar year:</b>	<b>Maximum Rate:</b>
2003 .....	49 percent
2004 .....	48 percent
2005 .....	47 percent
2006 .....	46 percent
2007 .....	45 percent
2008 .....	45 percent
2009 .....	45 percent
2010 .....	45 percent

(d) MAXIMUM GIFT TAX RATE REDUCED TO 40 PERCENT AFTER 2010.—Subsection (a) of section 2502 (relating to rate of tax) is amended to read as follows:

“(a) COMPUTATION OF TAX.—

“(1) IN GENERAL.—The tax imposed by section 2501 for each calendar year shall be an amount equal to the excess of—

“(A) a tentative tax, computed under paragraph (2), on the aggregate sum of the taxable gifts for such calendar year and for each of the preceding calendar periods, over

“(B) a tentative tax, computed under paragraph (2), on the aggregate sum of the taxable gifts for each of the preceding calendar periods.

“(2) RATE SCHEDULE.—

“If the amount with respect to which the tentative tax to be computed is:

	<b>The tentative tax is:</b>
Not over \$10,000 .....	18% of such amount.
Over \$10,000 but not over \$20,000 .....	\$1,800, plus 20% of the excess over \$10,000.
Over \$20,000 but not over \$40,000 .....	\$3,800, plus 22% of the excess over \$20,000.
Over \$40,000 but not over \$60,000 .....	\$8,200, plus 24% of the excess over \$40,000.
Over \$60,000 but not over \$80,000 .....	\$13,000, plus 26% of the excess over \$60,000.
Over \$80,000 but not over \$100,000 .....	\$18,200, plus 28% of the excess over \$80,000.
Over \$100,000 but not over \$150,000 .....	\$23,800, plus 30% of the excess over \$100,000.
Over \$150,000 but not over \$250,000 .....	\$38,800, plus 32% of the excess over \$150,000.
Over \$250,000 but not over \$500,000 .....	\$70,800, plus 34% of the excess over \$250,000.
Over \$500,000 but not over \$750,000 .....	\$155,800, plus 37% of the excess over \$500,000.
Over \$750,000 but not over \$1,000,000 .....	\$248,300, plus 39% of the excess over \$750,000.
Over \$1,000,000 .....	\$345,800, plus 40% of the excess over \$1,000,000.”.

(e) TREATMENT OF CERTAIN TRANSFERS IN TRUST.—Section 2511 (relating to transfers in general) is amended by adding at the end the following new subsection:

“(c) TREATMENT OF CERTAIN TRANSFERS IN TRUST.—Notwithstanding any other provision of this section and except as provided in regulations, a transfer in trust shall be treated as a taxable gift under section 2503, unless the trust is treated as wholly owned by the donor or the donor's spouse under subpart E of part I of subchapter J of chapter 1.”.

(f) EFFECTIVE DATES.—

(1) SUBSECTIONS (a) AND (b).—The amendments made by subsections (a) and (b) shall apply to estates of decedents dying, and gifts made, after December 31, 2001.

(2) SUBSECTION (c).—The amendment made by subsection (c) shall apply to estates of decedents dying, and gifts made, after December 31, 2002.

(3) SUBSECTIONS (d) AND (e).—The amendments made by subsections (d) and (e) shall apply to gifts made after December 31, 2010.

## **Subtitle C—Increase in Exemption Amounts**

### **SEC. 521. INCREASE IN EXEMPTION EQUIVALENT OF UNIFIED CREDIT, LIFETIME GIFTS EXEMPTION, AND GST EXEMPTION AMOUNTS.**

(a) IN GENERAL.—Subsection (c) of section 2010 (relating to applicable credit amount) is

amended by striking the table and inserting the following new table:

<b>“In the case of estates of decedents dying during:</b>	<b>The applicable exclusion amount is:</b>
2002 and 2003 .....	\$1,000,000
2004 .....	\$2,000,000
2005, 2006, 2007, and 2008 .....	\$3,000,000
2009 .....	\$3,500,000
2010 .....	\$4,000,000.”.

(b) LIFETIME GIFT EXEMPTION INCREASED TO \$1,000,000.—

(1) FOR PERIODS BEFORE ESTATE TAX REPEAL.—Paragraph (1) of section 2505(a) (relating to unified credit against gift tax) is amended by inserting “(determined as if the applicable exclusion amount were \$1,000,000)” after “calendar year”.

(2) FOR PERIODS AFTER ESTATE TAX REPEAL.—Paragraph (1) of section 2505(a) (relating to unified credit against gift tax), as amended by paragraph (1), is amended to read as follows:

“(1) the amount of the tentative tax which would be determined under the rate schedule set forth in section 2502(a)(2) if the amount with respect to which such tentative tax is to be computed were \$1,000,000, reduced by”.

(c) GST EXEMPTION.—

(1) IN GENERAL.—Subsection (a) of 2631 (relating to GST exemption) is amended by striking “of \$1,000,000” and inserting “amount”.

(2) EXEMPTION AMOUNT.—Subsection (c) of section 2631 is amended to read as follows:

“(c) GST EXEMPTION AMOUNT.—For purposes of subsection (a), the GST exemption amount for any calendar year shall be equal to the applicable exclusion amount under section 2010(c) for such calendar year.”.

(d) REPEAL OF SPECIAL BENEFIT FOR FAMILY-OWNED BUSINESS INTERESTS.—

(1) IN GENERAL.—Section 2057 is hereby repealed.

(2) CONFORMING AMENDMENTS.—

(A) Paragraph (10) of section 2031(c) is amended by inserting “(as in effect on the day before the date of the enactment of this parenthetical)” before the period.

(B) The table of sections for part IV of subchapter A of chapter 11 is amended by striking the item relating to section 2057.

(e) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraphs (2) and (3), the amendments made by this section shall apply to estates of decedents dying, and gifts made, after December 31, 2001.

(2) SUBSECTION (b)(2).—The amendments made by subsection (b)(2) shall apply to gifts made after December 31, 2010.

(3) SUBSECTIONS (c) AND (d).—The amendments made by subsections (c) and (d) shall apply to estates of decedents dying, and generation-skipping transfers made, after December 31, 2003.

## **Subtitle D—Credit for State Death Taxes**

### **SEC. 531. REDUCTION OF CREDIT FOR STATE DEATH TAXES.**

(a) MAXIMUM CREDIT REDUCED TO 8 PERCENT.—

(1) IN GENERAL.—The table contained in section 2011(b) is amended by striking the ten highest brackets and inserting the following:

“Over \$2,040,000 ..... \$106,800, plus 8% of the excess over \$2,040,000.”.

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to estates of decedents dying after December 31, 2001.

(b) MAXIMUM CREDIT REDUCED TO 7.2 PERCENT.—

(1) IN GENERAL.—The table contained in section 2101(b), as amended by subsection (a), is amended by striking the two highest brackets and inserting the following:

“Over \$1,540,000 ..... \$70,800, plus 7.2% of the excess over \$1,540,000.”.

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to estates of decedents dying after December 31, 2002.

(c) MAXIMUM CREDIT REDUCED TO 7.04 PERCENT.—

(1) IN GENERAL.—The table contained in section 2101(b), as amended by subsections (a) and (b), is amended by striking the highest bracket and inserting the following:

“Over \$1,540,000 ..... \$70,800, plus 7.04% of the excess over \$1,540,000.”.

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to estates of decedents dying after December 31, 2003.

#### SEC. 522. CREDIT FOR STATE DEATH TAXES REPLACED WITH DEDUCTION FOR SUCH TAXES.

(a) REPEAL OF CREDIT.—Section 2101 (relating to credit for State death taxes) is repealed.

(b) DEDUCTION FOR STATE DEATH TAXES.—Part IV of subchapter A of chapter 11 is amended by adding at the end the following new section:

##### “SEC. 2058. STATE DEATH TAXES.

“(a) ALLOWANCE OF DEDUCTION.—For purposes of the tax imposed by section 2001, the value of the taxable estate shall be determined by deducting from the value of the gross estate the amount of any estate, inheritance, legacy, or succession taxes actually paid to any State or the District of Columbia, in respect of any property included in the gross estate (not including any such taxes paid with respect to the estate of a person other than the decedent).

“(b) PERIOD OF LIMITATIONS.—The deduction allowed by this section shall include only such taxes as were actually paid and deduction therefor claimed before the later of—

“(1) 4 years after the filing of the return required by section 6018, or

“(2) if—

“(A) a petition for redetermination of a deficiency has been filed with the Tax Court within the time prescribed in section 6213(a), the expiration of 60 days after the decision of the Tax Court becomes final,

“(B) an extension of time has been granted under section 6161 or 6166 for payment of the tax shown on the return, or of a deficiency, the date of the expiration of the period of the extension, or

“(C) a claim for refund or credit of an overpayment of tax imposed by this chapter has been filed within the time prescribed in section 6511, the latest of the expiration of—

“(i) 60 days from the date of mailing by certified mail or registered mail by the Secretary to the taxpayer of a notice of the disallowance of any part of such claim,

“(ii) 60 days after a decision by any court of competent jurisdiction becomes final with respect to a timely suit instituted upon such claim, or

“(iii) 2 years after a notice of the waiver of disallowance is filed under section 6532(a)(3). Notwithstanding sections 6511 and 6512, refund based on the deduction may be made if the claim for refund is filed within the period provided in the preceding sentence. Any such refund shall be made without interest.”.

(c) CONFORMING AMENDMENTS.—

(1) Subsection (a) of section 2102 is amended by striking “the credit for State death taxes provided by section 2101 and”.

(2) Subparagraph (A) of section 2103(c)(1) is amended by striking “2011.”.

(3) Paragraph (2) of section 2104(b) is amended by striking “, 2011.”.

(4) Sections 2105 and 2106 are each amended by striking “2011 or”.

(5) Subsection (d) of section 2053 is amended to read as follows:

“(d) CERTAIN FOREIGN DEATH TAXES.—

“(1) IN GENERAL.—Notwithstanding the provisions of subsection (c)(1)(B), for purposes of the tax imposed by section 2001, the value of the taxable estate may be determined, if the executor so elects before the expiration of the period of limitation for assessment provided in section 6501, by deducting from the value of the gross estate the amount (as determined in accordance with regulations prescribed by the Secretary) of any estate, succession, legacy, or inheritance tax imposed by and actually paid to any foreign country, in respect of any property situated within such foreign country and included in the gross estate of a citizen or resident of the United States, upon a transfer by the decedent for public, charitable, or religious uses described in section 2055. The determination under this paragraph of the country within which property is situated shall be made in accordance with the rules applicable under subchapter B (sec. 2101 and following) in determining whether property is situated within or without the United States. Any election under this paragraph shall be exercised in accordance with regulations prescribed by the Secretary.

“(2) CONDITION FOR ALLOWANCE OF DEDUCTION.—No deduction shall be allowed under paragraph (1) for a foreign death tax specified therein unless the decrease in the tax imposed by section 2001 which results from the deduction provided in paragraph (1) will inure solely for the benefit of the public, charitable, or religious transferees described in section 2055 or section 2106(a)(2). In any case where the tax imposed by section 2001 is equitably apportioned among all the transferees of property included in the gross estate, including those described in sections 2055 and 2106(a)(2) (taking into account any exemptions, credits, or deductions allowed by this chapter), in determining such decrease, there shall be disregarded any decrease in the Federal estate tax which any transferees other than those described in sections 2055 and 2106(a)(2) are required to pay.

“(3) EFFECT ON CREDIT FOR FOREIGN DEATH TAXES OF DEDUCTION UNDER THIS SUBSECTION.—

“(A) ELECTION.—An election under this subsection shall be deemed a waiver of the right to claim a credit, against the Federal estate tax, under a death tax convention with any foreign country for any tax or portion thereof in respect of which a deduction is taken under this subsection.

“(B) CROSS REFERENCE.—

“See section 2104(f) for the effect of a deduction taken under this paragraph on the credit for foreign death taxes.”.

(6) Subparagraph (A) of section 2056A(b)(10) is amended—

(A) by striking “2011.”, and

(B) by inserting “2058,” after “2056.”.

(7)(A) Subsection (a) of section 2102 is amended to read as follows:

“(a) IN GENERAL.—The tax imposed by section 2101 shall be credited with the amounts determined in accordance with sections 2102 and 2103 (relating to gift tax and tax on prior transfers).”.

(B) Section 2102 is amended by striking subsection (b) and by redesignating subsection (c) as subsection (b).

(C) Section 2102(b)(5) (as redesignated by subparagraph (B)) and section 2107(c)(3) are each amended by striking “2011 to 2013, inclusive,” and inserting “2012 and 2013”.

(8) Subsection (a) of section 2106 is amended by adding at the end the following new paragraph:

“(4) STATE DEATH TAXES.—The amount which bears the same ratio to the State death taxes as the value of the property, as determined for purposes of this chapter, upon which State death taxes were paid and which is included in the gross estate under section 2103 bears to the value of the total gross estate under section 2103. For purposes of this paragraph, the term ‘State death taxes’ means the taxes described in section 2101(a).”.

(9) Section 2201 is amended—

(A) by striking “as defined in section 2101(d)”, and

(B) by adding at the end the following new flush sentence:

“For purposes of this section, the additional estate tax is the difference between the tax imposed by section 2001 or 2101 and the amount equal to 125 percent of the maximum credit provided by section 2101(b), as in effect before its repeal by the Restoring Earnings To Lift Individuals and Empower Families (RELIEF) Act of 2001.”.

(10) Section 2604 is repealed.

(11) Paragraph (2) of section 6511(i) is amended by striking “2011(c), 2014(b),” and inserting “2014(b)”.

(12) Subsection (c) of section 6612 is amended by striking “section 2101(c) (relating to refunds due to credit for State taxes).”.

(13) The table of sections for part II of subchapter A of chapter 11 is amended by striking the item relating to section 2101.

(14) The table of sections for part IV of subchapter A of chapter 11 is amended by adding at the end the following new item:

“Sec. 2058. State death taxes.”.

(15) The table of sections for subchapter A of chapter 13 is amended by striking the item relating to section 2604.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to estates of decedents dying after December 31, 2004.

#### Subtitle E—Carryover Basis at Death; Other Changes Taking Effect With Repeal

#### SEC. 541. TERMINATION OF STEP-UP IN BASIS AT DEATH.

Section 1014 (relating to basis of property acquired from a decedent) is amended by adding at the end the following new subsection:

“(f) TERMINATION.—This section shall not apply with respect to decedents dying after December 31, 2010.”.

#### SEC. 542. TREATMENT OF PROPERTY ACQUIRED FROM A DECEDENT DYING AFTER DECEMBER 31, 2010.

(a) GENERAL RULE.—Part II of subchapter O of chapter 1 (relating to basis rules of general application) is amended by inserting after section 1021 the following new section:

##### “SEC. 1022. TREATMENT OF PROPERTY ACQUIRED FROM A DECEDENT DYING AFTER DECEMBER 31, 2010.

“(a) IN GENERAL.—Except as otherwise provided in this section—

“(1) property acquired from a decedent dying after December 31, 2010, shall be treated for purposes of this subtitle as transferred by gift, and

“(2) the basis of the person acquiring property from such a decedent shall be the lesser of—

“(A) the adjusted basis of the decedent, or

“(B) the fair market value of the property at the date of the decedent’s death.

“(b) BASIS INCREASE FOR CERTAIN PROPERTY.—

“(1) IN GENERAL.—In the case of property to which this subsection applies, the basis of such property under subsection (a) shall be increased by its basis increase under this subsection.

“(2) BASIS INCREASE.—For purposes of this subsection—

“(A) IN GENERAL.—The basis increase under this subsection for any property is the portion of the aggregate basis increase which is allocated to the property pursuant to this section.

“(B) AGGREGATE BASIS INCREASE.—In the case of any estate, the aggregate basis increase under this subsection is \$1,300,000.

“(C) LIMIT INCREASED BY UNUSED BUILT-IN LOSSES AND LOSS CARRYOVERS.—The limitation under subparagraph (B) shall be increased by—

“(i) the sum of the amount of any capital loss carryover under section 1212(b), and the amount of any net operating loss carryover under section 172, which would (but for the decedent's death) be carried from the decedent's last taxable year to a later taxable year of the decedent, plus

“(ii) the sum of the amount of any losses that would have been allowable under section 165 if the property acquired from the decedent had been sold at fair market value immediately before the decedent's death.

“(3) DECEDENT NONRESIDENTS WHO ARE NOT CITIZENS OF THE UNITED STATES.—In the case of a decedent nonresident not a citizen of the United States—

“(A) paragraph (2)(B) shall be applied by substituting ‘\$60,000’ for ‘\$1,300,000’, and

“(B) paragraph (2)(C) shall not apply.

“(c) ADDITIONAL BASIS INCREASE FOR PROPERTY ACQUIRED BY SURVIVING SPOUSE.—

“(1) IN GENERAL.—In the case of property to which this subsection applies and which is qualified spousal property, the basis of such property under subsection (a) (as increased under subsection (b)) shall be increased by its spousal property basis increase.

“(2) SPOUSAL PROPERTY BASIS INCREASE.—For purposes of this subsection—

“(A) IN GENERAL.—The spousal property basis increase for property referred to in paragraph (1) is the portion of the aggregate spousal property basis increase which is allocated to the property pursuant to this section.

“(B) AGGREGATE SPOUSAL PROPERTY BASIS INCREASE.—In the case of any estate, the aggregate spousal property basis increase is \$3,000,000.

“(3) QUALIFIED SPOUSAL PROPERTY.—For purposes of this subsection, the term ‘qualified spousal property’ means—

“(A) outright transfer property, and

“(B) qualified terminable interest property.

“(4) OUTRIGHT TRANSFER PROPERTY.—For purposes of this subsection—

“(A) IN GENERAL.—The term ‘outright transfer property’ means any interest in property acquired from the decedent by the decedent's surviving spouse.

“(B) EXCEPTION.—Subparagraph (A) shall not apply where, on the lapse of time, on the occurrence of an event or contingency, or on the failure of an event or contingency to occur, an interest passing to the surviving spouse will terminate or fail—

“(i) if an interest in such property passes or has passed (for less than an adequate and full consideration in money or money's worth) from the decedent to any person other than such surviving spouse (or the estate of such spouse), and

“(II) if by reason of such passing such person (or his heirs or assigns) may possess or enjoy any part of such property after such termination or failure of the interest so passing to the surviving spouse, or

“(ii) if such interest is to be acquired for the surviving spouse, pursuant to directions of the decedent, by his executor or by the trustee of a trust.

For purposes of this subparagraph, an interest shall not be considered as an interest which will terminate or fail merely because it is the ownership of a bond, note, or similar contractual obligation, the discharge of which would not have the effect of an annuity for life or for a term.

“(C) INTEREST OF SPOUSE CONDITIONAL ON SURVIVAL FOR LIMITED PERIOD.—For purposes of this paragraph, an interest passing to the surviving spouse shall not be considered as an interest which will terminate or fail on the death of such spouse if—

“(i) such death will cause a termination or failure of such interest only if it occurs within a period not exceeding 6 months after the decedent's death, or only if it occurs as a result of a common disaster resulting in the death of the decedent and the surviving spouse, or only if it occurs in the case of either such event, and

“(ii) such termination or failure does not in fact occur.

“(5) QUALIFIED TERMINABLE INTEREST PROPERTY.—For purposes of this subsection—

“(A) IN GENERAL.—The term ‘qualified terminable interest property’ means property—

“(i) which passes from the decedent, and

“(ii) in which the surviving spouse has a qualifying income interest for life.

“(B) QUALIFYING INCOME INTEREST FOR LIFE.—The surviving spouse has a qualifying income interest for life if—

“(i) the surviving spouse is entitled to all the income from the property, payable annually or at more frequent intervals, or has a usufruct interest for life in the property, and

“(ii) no person has a power to appoint any part of the property to any person other than the surviving spouse.

Clause (ii) shall not apply to a power exercisable only at or after the death of the surviving spouse. To the extent provided in regulations, an annuity shall be treated in a manner similar to an income interest in property (regardless of whether the property from which the annuity is payable can be separately identified).

“(C) PROPERTY INCLUDES INTEREST THEREIN.—The term ‘property’ includes an interest in property.

“(D) SPECIFIC PORTION TREATED AS SEPARATE PROPERTY.—A specific portion of property shall be treated as separate property. For purposes of the preceding sentence, the term ‘specific portion’ only includes a portion determined on a fractional or percentage basis.

“(d) DEFINITIONS AND SPECIAL RULES FOR APPLICATION OF SUBSECTIONS (b) AND (c).—

“(1) PROPERTY TO WHICH SUBSECTIONS (b) AND (c) APPLY.—

“(A) IN GENERAL.—The basis of property acquired from a decedent may be increased under subsection (b) or (c) only if the property was owned by the decedent at the time of death.

“(B) RULES RELATING TO OWNERSHIP.—

“(i) JOINTLY HELD PROPERTY.—In the case of property which was owned by the decedent and another person as joint tenants with right of survivorship or tenants by the entirety—

“(I) if the only such other person is the surviving spouse, the decedent shall be treat-

ed as the owner of only 50 percent of the property,

“(II) in any case (to which subclause (I) does not apply) in which the decedent furnished consideration for the acquisition of the property, the decedent shall be treated as the owner to the extent of the portion of the property which is proportionate to such consideration, and

“(III) in any case (to which subclause (I) does not apply) in which the property has been acquired by gift, bequest, devise, or inheritance by the decedent and any other person as joint tenants with right of survivorship and their interests are not otherwise specified or fixed by law, the decedent shall be treated as the owner to the extent of the value of a fractional part to be determined by dividing the value of the property by the number of joint tenants with right of survivorship.

“(ii) REVOCABLE TRUSTS.—The decedent shall be treated as owning property transferred by the decedent during life to a qualified revocable trust (as defined in section 645(b)(1)).

“(iii) POWERS OF APPOINTMENT.—The decedent shall not be treated as owning any property by reason of holding a power of appointment with respect to such property.

“(iv) COMMUNITY PROPERTY.—Property which represents the surviving spouse's one-half share of community property held by the decedent and the surviving spouse under the community property laws of any State or possession of the United States or any foreign country shall be treated for purposes of this section as owned by, and acquired from, the decedent if at least one-half of the whole of the community interest in such property is treated as owned by, and acquired from, the decedent without regard to this clause.

“(C) PROPERTY ACQUIRED BY DECEDENT BY GIFT WITHIN 3 YEARS OF DEATH.—

“(i) IN GENERAL.—Subsections (b) and (c) shall not apply to property acquired by the decedent by gift or by inter vivos transfer for less than adequate and full consideration in money or money's worth during the 3-year period ending on the date of the decedent's death.

“(ii) EXCEPTION FOR CERTAIN GIFTS FROM SPOUSE.—Clause (i) shall not apply to property acquired by the decedent from the decedent's spouse unless, during such 3-year period, such spouse acquired the property in whole or in part by gift or by inter vivos transfer for less than adequate and full consideration in money or money's worth.

“(D) STOCK OF CERTAIN ENTITIES.—Subsections (b) and (c) shall not apply to—

“(i) stock or securities of a foreign personal holding company,

“(ii) stock of a DISC or former DISC,

“(iii) stock of a foreign investment company, or

“(iv) stock of a passive foreign investment company unless such company is a qualified electing fund (as defined in section 1295) with respect to the decedent.

“(2) FAIR MARKET VALUE LIMITATION.—The adjustments under subsections (b) and (c) shall not increase the basis of any interest in property acquired from the decedent above its fair market value in the hands of the decedent as of the date of the decedent's death.

“(3) ALLOCATION RULES.—

“(A) IN GENERAL.—The executor shall allocate the adjustments under subsections (b) and (c) on the return required by section 6018.

“(B) CHANGES IN ALLOCATION.—Any allocation made pursuant to subparagraph (A) may be changed only as provided by the Secretary.

“(4) INFLATION ADJUSTMENT OF BASIS ADJUSTMENT AMOUNTS.—

“(A) IN GENERAL.—In the case of decedents dying in a calendar year after 2011, the \$1,300,000, \$60,000, and \$3,000,000 dollar amounts in subsections (b) and (c)(2)(B) shall each be increased by an amount equal to the product of—

“(i) such dollar amount, and

“(ii) the cost-of-living adjustment determined under section 1(f)(3) for such calendar year, determined by substituting ‘2010’ for ‘1992’ in subparagraph (B) thereof.

“(B) ROUNDING.—If any increase determined under subparagraph (A) is not a multiple of—

“(i) \$100,000 in the case of the \$1,300,000 amount,

“(ii) \$5,000 in the case of the \$60,000 amount, and

“(iii) \$250,000 in the case of the \$3,000,000 amount,

such increase shall be rounded to the next lowest multiple thereof.

“(e) PROPERTY ACQUIRED FROM THE DECEDENT.—For purposes of this section, the following property shall be considered to have been acquired from the decedent:

“(1) Property acquired by bequest, devise, or inheritance, or by the decedent’s estate from the decedent.

“(2) Property transferred by the decedent during his lifetime—

“(A) to a qualified revocable trust (as defined in section 645(b)(1)), or

“(B) to any other trust with respect to which the decedent reserved the right to make any change in the enjoyment thereof through the exercise of a power to alter, amend, or terminate the trust.

“(3) Any other property passing from the decedent by reason of death to the extent that such property passed without consideration.

“(f) COORDINATION WITH SECTION 691.—This section shall not apply to property which constitutes a right to receive an item of income in respect of a decedent under section 691.

“(g) CERTAIN LIABILITIES DISREGARDED.—

“(1) IN GENERAL.—In determining whether gain is recognized on the acquisition of property—

“(A) from a decedent by a decedent’s estate or any beneficiary other than a tax-exempt beneficiary, and

“(B) from the decedent’s estate by any beneficiary other than a tax-exempt beneficiary, and in determining the adjusted basis of such property, liabilities in excess of basis shall be disregarded.

“(2) TAX-EXEMPT BENEFICIARY.—For purposes of paragraph (1)(B)—

“(A) IN GENERAL.—The term ‘tax-exempt beneficiary’ means—

“(i) the United States, any State or political subdivision thereof, any possession of the United States, any Indian tribal government (within the meaning of section 7871), or any agency or instrumentality of any of the foregoing,

“(ii) an organization (other than a cooperative described in section 521) which is exempt from tax imposed by chapter 1, and

“(iii) any foreign person or entity (within the meaning of section 168(h)(2)).

“(h) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this section.”.

(b) INFORMATION RETURNS, ETC.—

(1) LARGE TRANSFERS AT DEATH.—So much of subpart C of part II of subchapter A of chapter 61 as precedes section 6019 is amended to read as follows:

### “Subpart C—Returns Relating to Transfers During Life or at Death

“Sec. 6018. Returns relating to large transfers at death.

“Sec. 6019. Gift tax returns.

### “SEC. 6018. RETURNS RELATING TO LARGE TRANSFERS AT DEATH.

“(a) IN GENERAL.—If this section applies to property acquired from a decedent, the executor of the estate of such decedent shall make a return containing the information specified in subsection (c) with respect to such property.

“(b) PROPERTY TO WHICH SECTION APPLIES.—

“(1) LARGE TRANSFERS.—This section shall apply to all property (other than cash) acquired from a decedent if the fair market value of such property acquired from the decedent exceeds the dollar amount applicable under section 1022(b)(2)(B) (without regard to section 1022(b)(2)(C)).

“(2) TRANSFERS OF CERTAIN GIFTS RECEIVED BY DECEDENT WITHIN 3 YEARS OF DEATH.—This section shall apply to any appreciated property acquired from the decedent if—

“(A) subsections (b) and (c) of section 1022 do not apply to such property by reason of section 1022(d)(1)(C), and

“(B) such property was required to be included on a return required to be filed under section 6019.

“(3) NONRESIDENTS NOT CITIZENS OF THE UNITED STATES.—In the case of a decedent who is a nonresident not a citizen of the United States, paragraphs (1) and (2) shall be applied—

“(A) by taking into account only—

“(i) tangible property situated in the United States, and

“(ii) other property acquired from the decedent by a United States person, and

“(B) by substituting the dollar amount applicable under section 1022(b)(3) for the dollar amount referred to in paragraph (1).

“(4) RETURNS BY TRUSTEES OR BENEFICIARIES.—If the executor is unable to make a complete return as to any property acquired from or passing from the decedent, the executor shall include in the return a description of such property and the name of every person holding a legal or beneficial interest therein. Upon notice from the Secretary, such person shall in like manner make a return as to such property.

“(c) INFORMATION REQUIRED TO BE FURNISHED.—The information specified in this subsection with respect to any property acquired from the decedent is—

“(1) the name and TIN of the recipient of such property,

“(2) an accurate description of such property,

“(3) the adjusted basis of such property in the hands of the decedent and its fair market value at the time of death,

“(4) the decedent’s holding period for such property,

“(5) sufficient information to determine whether any gain on the sale of the property would be treated as ordinary income,

“(6) the amount of basis increase allocated to the property under subsection (b) or (c) of section 1022, and

“(7) such other information as the Secretary may by regulations prescribe.

“(d) PROPERTY ACQUIRED FROM DECEDENT.—For purposes of this section, section 1022 shall apply for purposes of determining the property acquired from a decedent.

“(e) STATEMENTS TO BE FURNISHED TO CERTAIN PERSONS.—Every person required to make a return under subsection (a) shall furnish to each person whose name is required

to be set forth in such return (other than the person required to make such return) a written statement showing—

“(1) the name, address, and phone number of the person required to make such return, and

“(2) the information specified in subsection (c) with respect to property acquired from, or passing from, the decedent to the person required to receive such statement.

The written statement required under the preceding sentence shall be furnished not later than 30 days after the date that the return required by subsection (a) is filed.”.

(2) GIFTS.—Section 6019 (relating to gift tax returns) is amended—

(A) by striking “Any individual” and inserting “(a) IN GENERAL.—Any individual”, and

(B) by adding at the end the following new subsection:

“(b) STATEMENTS TO BE FURNISHED TO CERTAIN PERSONS.—Every person required to make a return under subsection (a) shall furnish to each person whose name is required to be set forth in such return (other than the person required to make such return) a written statement showing—

“(1) the name, address, and phone number of the person required to make such return, and

“(2) the information specified in such return with respect to property received by the person required to receive such statement.

The written statement required under the preceding sentence shall be furnished not later than 30 days after the date that the return required by subsection (a) is filed.”.

(3) TIME FOR FILING SECTION 6018 RETURNS.—

(A) RETURNS RELATING TO LARGE TRANSFERS AT DEATH.—Subsection (a) of section 6075 is amended to read as follows:

“(a) RETURNS RELATING TO LARGE TRANSFERS AT DEATH.—The return required by section 6018 with respect to a decedent shall be filed with the return of the tax imposed by chapter 1 for the decedent’s last taxable year or such later date specified in regulations prescribed by the Secretary.”.

(B) CONFORMING AMENDMENTS.—Paragraph (3) of section 6075(b) is amended—

(I) by striking “ESTATE TAX RETURN” in the heading and inserting “SECTION 6018 RETURN”, and

(II) by striking “(relating to estate tax returns)” and inserting “(relating to returns relating to large transfers at death)”.

(4) PENALTIES.—Part I of subchapter B of chapter 68 (relating to assessable penalties) is amended by adding at the end the following new section:

### “SEC. 6716. FAILURE TO FILE INFORMATION WITH RESPECT TO CERTAIN TRANSFERS AT DEATH AND GIFTS.

“(a) INFORMATION REQUIRED TO BE FURNISHED TO THE SECRETARY.—Any person required to furnish any information under section 6018 who fails to furnish such information on the date prescribed therefor (determined with regard to any extension of time for filing) shall pay a penalty of \$10,000 (\$500 in the case of information required to be furnished under section 6018(b)(2)) for each such failure.

“(b) INFORMATION REQUIRED TO BE FURNISHED TO BENEFICIARIES.—Any person required to furnish in writing to each person described in section 6018(e) or 6019(b) the information required under such section who fails to furnish such information shall pay a penalty of \$50 for each such failure.

“(c) REASONABLE CAUSE EXCEPTION.—No penalty shall be imposed under subsection (a) or (b) with respect to any failure if it is

shown that such failure is due to reasonable cause.

“(d) **INTENTIONAL DISREGARD.**—If any failure under subsection (a) or (b) is due to intentional disregard of the requirements under sections 6018 and 6019(b), the penalty under such subsection shall be 5 percent of the fair market value (as of the date of death or, in the case of section 6019(b), the date of the gift) of the property with respect to which the information is required.

“(e) **DEFICIENCY PROCEDURES NOT TO APPLY.**—Subchapter B of chapter 63 (relating to deficiency procedures for income, estate, gift, and certain excise taxes) shall not apply in respect of the assessment or collection of any penalty imposed by this section.”.

(5) **CLERICAL AMENDMENTS.**—

(A) The table of sections for part I of subchapter B of chapter 68 is amended by adding at the end the following new item:

“Sec. 6716. Failure to file information with respect to certain transfers at death and gifts.”.

(B) The item relating to subpart C in the table of subparts for part II of subchapter A of chapter 61 is amended to read as follows:

“Subpart C. Returns relating to transfers during life or at death.”.

(c) **EXCLUSION OF GAIN ON SALE OF PRINCIPAL RESIDENCE MADE AVAILABLE TO HEIR OF DECEDENT IN CERTAIN CASES.**—Subsection (d) of section 121 (relating to exclusion of gain from sale of principal residence) is amended by adding at the end the following new paragraph:

“(9) **PROPERTY ACQUIRED FROM A DECEDENT.**—The exclusion under this section shall apply to property sold by—

“(A) the estate of a decedent, and

“(B) any individual who acquired such property from the decedent (within the meaning of section 1022), determined by taking into account the ownership and use by the decedent.”.

(d) **TRANSFERS OF APPRECIATED CARRYOVER BASIS PROPERTY TO SATISFY PECUNIARY BEQUEST.**—

(1) **IN GENERAL.**—Section 1040 (relating to transfer of certain farm, etc., real property) is amended to read as follows:

“**SEC. 1040. USE OF APPRECIATED CARRYOVER BASIS PROPERTY TO SATISFY PECUNIARY BEQUEST.**

“(a) **IN GENERAL.**—If the executor of the estate of any decedent satisfies the right of any person to receive a pecuniary bequest with appreciated property, then gain on such exchange shall be recognized to the estate only to the extent that, on the date of such exchange, the fair market value of such property exceeds such value on the date of death.

“(b) **SIMILAR RULE FOR CERTAIN TRUSTS.**—To the extent provided in regulations prescribed by the Secretary, a rule similar to the rule provided in subsection (a) shall apply where—

“(1) by reason of the death of the decedent, a person has a right to receive from a trust a specific dollar amount which is the equivalent of a pecuniary bequest, and

“(2) the trustee of a trust satisfies such right with property.

“(c) **BASIS OF PROPERTY ACQUIRED IN EXCHANGE DESCRIBED IN SUBSECTION (a) OR (b).**—The basis of property acquired in an exchange with respect to which gain realized is not recognized by reason of subsection (a) or (b) shall be the basis of such property immediately before the exchange increased by the amount of the gain recognized to the estate or trust on the exchange.”.

(2) The item relating to section 1040 in the table of sections for part III of subchapter O of chapter 1 is amended to read as follows:

“Sec. 1040. Use of appreciated carryover basis property to satisfy pecuniary bequest.”.

(e) **MISCELLANEOUS AMENDMENTS RELATED TO CARRYOVER BASIS.**—

(1) **RECOGNITION OF GAIN ON TRANSFERS TO NONRESIDENTS.**—

(A) Subsection (a) of section 684 is amended by inserting “or to a nonresident alien” after “or trust”.

(B) Subsection (b) of section 684 is amended by striking “any person” and inserting “any United States person”.

(C) The section heading for section 684 is amended by inserting “and nonresident aliens” after “estates”.

(D) The item relating to section 684 in the table of sections for subpart F of part I of subchapter J of chapter 1 is amended by inserting “and nonresident aliens” after “estates”.

(2) **CAPITAL GAIN TREATMENT FOR INHERITED ART WORK OR SIMILAR PROPERTY.**—

(A) **IN GENERAL.**—Subparagraph (C) of section 1221(a)(3) (defining capital asset) is amended by inserting “(other than by reason of section 1022)” after “is determined”.

(B) **COORDINATION WITH SECTION 170.**—Paragraph (1) of section 170(e) (relating to certain contributions of ordinary income and capital gain property) is amended by adding at the end the following: “For purposes of this paragraph, the determination of whether property is a capital asset shall be made without regard to the exception contained in section 1221(a)(3)(C) for basis determined under section 1022.”.

(3) **DEFINITION OF EXECUTOR.**—Section 7701(a) (relating to definitions) is amended by adding at the end the following:

“(47) **EXECUTOR.**—The term ‘executor’ means the executor or administrator of the decedent, or, if there is no executor or administrator appointed, qualified, and acting within the United States, then any person in actual or constructive possession of any property of the decedent.”.

(4) **CERTAIN TRUSTS.**—Subparagraph (A) of section 4947(a)(2) is amended by inserting “642(c),” after “170(f)(2)(B),”.

(5) **OTHER AMENDMENTS.**—

(A) Section 1246 is amended by striking subsection (e).

(B) Subsection (e) of section 1291 is amended—

(i) by striking “(e),”;

(ii) by striking “; except that” and all that follows and inserting a period.

(C) Section 1296 is amended by striking subsection (i).

(6) **CLERICAL AMENDMENT.**—The table of sections for part II of subchapter O of chapter 1 is amended by inserting after the item relating to section 1021 the following new item:

“Sec. 1022. Treatment of property acquired from a decedent dying after December 31, 2010.”.

(f) **EFFECTIVE DATE.**—

(1) **IN GENERAL.**—Except as provided in paragraph (2), the amendments made by this section shall apply to estates of decedents dying after December 31, 2010.

(2) **TRANSFERS TO NONRESIDENTS.**—The amendments made by subsection (e)(1) shall apply to transfers after December 31, 2010.

(3) **SECTION 4947.**—The amendment made by subsection (e)(4) shall apply to deductions for taxable years beginning after December 31, 2010.

**Subtitle F—Conservation Easements**

**SEC. 551. EXPANSION OF ESTATE TAX RULE FOR CONSERVATION EASEMENTS.**

(a) **REPEAL OF CERTAIN RESTRICTIONS ON WHERE LAND IS LOCATED.**—Clause (i) of section 2031(c)(8)(A) (defining land subject to a qualified conservation easement) is amended to read as follows:

“(i) which is located in the United States or any possession of the United States.”.

(b) **CLARIFICATION OF DATE FOR DETERMINING VALUE OF LAND AND EASEMENT.**—Section 2031(c)(2) (defining applicable percentage) is amended by adding at the end the following new sentence: “The values taken into account under the preceding sentence shall be such values as of the date of the contribution referred to in paragraph (8)(B).”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to estates of decedents dying after December 31, 2000.

**Subtitle G—Modifications of Generation-Skipping Transfer Tax**

**SEC. 561. DEEMED ALLOCATION OF GST EXEMPTION TO LIFETIME TRANSFERS TO TRUSTS; RETROACTIVE ALLOCATIONS.**

(a) **IN GENERAL.**—Section 2632 (relating to special rules for allocation of GST exemption) is amended by redesignating subsection (c) as subsection (e) and by inserting after subsection (b) the following new subsections:

“(c) **DEEMED ALLOCATION TO CERTAIN LIFETIME TRANSFERS TO GST TRUSTS.**—

“(1) **IN GENERAL.**—If any individual makes an indirect skip during such individual’s lifetime, any unused portion of such individual’s GST exemption shall be allocated to the property transferred to the extent necessary to make the inclusion ratio for such property zero. If the amount of the indirect skip exceeds such unused portion, the entire unused portion shall be allocated to the property transferred.

“(2) **UNUSED PORTION.**—For purposes of paragraph (1), the unused portion of an individual’s GST exemption is that portion of such exemption which has not previously been—

“(A) allocated by such individual,

“(B) treated as allocated under subsection (b) with respect to a direct skip occurring during or before the calendar year in which the indirect skip is made, or

“(C) treated as allocated under paragraph (1) with respect to a prior indirect skip.

“(3) **DEFINITIONS.**—

“(A) **INDIRECT SKIP.**—For purposes of this subsection, the term ‘indirect skip’ means any transfer of property (other than a direct skip) subject to the tax imposed by chapter 12 made to a GST trust.

“(B) **GST TRUST.**—The term ‘GST trust’ means a trust that could have a generation-skipping transfer with respect to the transferor unless—

“(i) the trust instrument provides that more than 25 percent of the trust corpus must be distributed to or may be withdrawn by one or more individuals who are non-skip persons—

“(I) before the date that the individual attains age 46,

“(II) on or before one or more dates specified in the trust instrument that will occur before the date that such individual attains age 46, or

“(III) upon the occurrence of an event that, in accordance with regulations prescribed by the Secretary, may reasonably be expected to occur before the date that such individual attains age 46,

“(ii) the trust instrument provides that more than 25 percent of the trust corpus

must be distributed to or may be withdrawn by one or more individuals who are non-skip persons and who are living on the date of death of another person identified in the instrument (by name or by class) who is more than 10 years older than such individuals,

“(iii) the trust instrument provides that, if one or more individuals who are non-skip persons die on or before a date or event described in clause (i) or (ii), more than 25 percent of the trust corpus either must be distributed to the estate or estates of one or more of such individuals or is subject to a general power of appointment exercisable by one or more of such individuals,

“(iv) the trust is a trust any portion of which would be included in the gross estate of a non-skip person (other than the transferor) if such person died immediately after the transfer,

“(v) the trust is a charitable lead annuity trust (within the meaning of section 2642(e)(3)(A)) or a charitable remainder annuity trust or a charitable remainder unitrust (within the meaning of section 664(d)), or

“(vi) the trust is a trust with respect to which a deduction was allowed under section 2522 for the amount of an interest in the form of the right to receive annual payments of a fixed percentage of the net fair market value of the trust property (determined yearly) and which is required to pay principal to a non-skip person if such person is alive when the yearly payments for which the deduction was allowed terminate.

For purposes of this subparagraph, the value of transferred property shall not be considered to be includible in the gross estate of a non-skip person or subject to a right of withdrawal by reason of such person holding a right to withdraw so much of such property as does not exceed the amount referred to in section 2503(b) with respect to any transferor, and it shall be assumed that powers of appointment held by non-skip persons will not be exercised.

“(4) AUTOMATIC ALLOCATIONS TO CERTAIN GST TRUSTS.—For purposes of this subsection, an indirect skip to which section 2642(f) applies shall be deemed to have been made only at the close of the estate tax inclusion period. The fair market value of such transfer shall be the fair market value of the trust property at the close of the estate tax inclusion period.

“(5) APPLICABILITY AND EFFECT.—

“(A) IN GENERAL.—An individual—

“(i) may elect to have this subsection not apply to—

“(I) an indirect skip, or

“(II) any or all transfers made by such individual to a particular trust, and

“(ii) may elect to treat any trust as a GST trust for purposes of this subsection with respect to any or all transfers made by such individual to such trust.

“(B) ELECTIONS.—

“(i) ELECTIONS WITH RESPECT TO INDIRECT SKIPS.—An election under subparagraph (A)(i)(I) shall be deemed to be timely if filed on a timely filed gift tax return for the calendar year in which the transfer was made or deemed to have been made pursuant to paragraph (4) or on such later date or dates as may be prescribed by the Secretary.

“(ii) OTHER ELECTIONS.—An election under clause (i)(II) or (ii) of subparagraph (A) may be made on a timely filed gift tax return for the calendar year for which the election is to become effective.

“(d) RETROACTIVE ALLOCATIONS.—

“(1) IN GENERAL.—If—

“(A) a non-skip person has an interest or a future interest in a trust to which any transfer has been made,

“(B) such person—

“(i) is a lineal descendant of a grandparent of the transferor or of a grandparent of the transferor's spouse or former spouse, and

“(ii) is assigned to a generation below the generation assignment of the transferor, and

“(C) such person predeceases the transferor,

then the transferor may make an allocation of any of such transferor's unused GST exemption to any previous transfer or transfers to the trust on a chronological basis.

“(2) SPECIAL RULES.—If the allocation under paragraph (1) by the transferor is made on a gift tax return filed on or before the date prescribed by section 6075(b) for gifts made within the calendar year within which the non-skip person's death occurred—

“(A) the value of such transfer or transfers for purposes of section 2642(a) shall be determined as if such allocation had been made on a timely filed gift tax return for each calendar year within which each transfer was made,

“(B) such allocation shall be effective immediately before such death, and

“(C) the amount of the transferor's unused GST exemption available to be allocated shall be determined immediately before such death.

“(3) FUTURE INTEREST.—For purposes of this subsection, a person has a future interest in a trust if the trust may permit income or corpus to be paid to such person on a date or dates in the future.”

(b) CONFORMING AMENDMENT.—Paragraph (2) of section 2632(b) is amended by striking “with respect to a prior direct skip” and inserting “or subsection (c)(1)”.

(c) EFFECTIVE DATES.—

(1) DEEMED ALLOCATION.—Section 2632(c) of the Internal Revenue Code of 1986 (as added by subsection (a)), and the amendment made by subsection (b), shall apply to transfers subject to chapter 11 or 12 made after December 31, 2000, and to estate tax inclusion periods ending after December 31, 2000.

(2) RETROACTIVE ALLOCATIONS.—Section 2632(d) of the Internal Revenue Code of 1986 (as added by subsection (a)) shall apply to deaths of non-skip persons occurring after December 31, 2000.

#### SEC. 562. SEVERING OF TRUSTS.

(a) IN GENERAL.—Subsection (a) of section 2642 (relating to inclusion ratio) is amended by adding at the end the following new paragraph:

“(3) SEVERING OF TRUSTS.—

“(A) IN GENERAL.—If a trust is severed in a qualified severance, the trusts resulting from such severance shall be treated as separate trusts thereafter for purposes of this chapter.

“(B) QUALIFIED SEVERANCE.—For purposes of subparagraph (A)—

“(i) IN GENERAL.—The term ‘qualified severance’ means the division of a single trust and the creation (by any means available under the governing instrument or under local law) of two or more trusts if—

“(I) the single trust was divided on a fractional basis, and

“(II) the terms of the new trusts, in the aggregate, provide for the same succession of interests of beneficiaries as are provided in the original trust.

“(ii) TRUSTS WITH INCLUSION RATIO GREATER THAN ZERO.—If a trust has an inclusion ratio of greater than zero and less than 1, a severance is a qualified severance only if the single trust is divided into two trusts, one of which receives a fractional share of the total value of all trust assets equal to the applicable fraction of the single trust immediately

before the severance. In such case, the trust receiving such fractional share shall have an inclusion ratio of zero and the other trust shall have an inclusion ratio of 1.

“(iii) REGULATIONS.—The term ‘qualified severance’ includes any other severance permitted under regulations prescribed by the Secretary.

“(C) TIMING AND MANNER OF SEVERANCES.—A severance pursuant to this paragraph may be made at any time. The Secretary shall prescribe by forms or regulations the manner in which the qualified severance shall be reported to the Secretary.”

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to severances after December 31, 2000.

#### SEC. 563. MODIFICATION OF CERTAIN VALUATION RULES.

(a) GIFTS FOR WHICH GIFT TAX RETURN FILED OR DEEMED ALLOCATION MADE.—Paragraph (1) of section 2642(b) (relating to valuation rules, etc.) is amended to read as follows:

“(1) GIFTS FOR WHICH GIFT TAX RETURN FILED OR DEEMED ALLOCATION MADE.—If the allocation of the GST exemption to any transfers of property is made on a gift tax return filed on or before the date prescribed by section 6075(b) for such transfer or is deemed to be made under section 2632 (b)(1) or (c)(1)—

“(A) the value of such property for purposes of subsection (a) shall be its value as finally determined for purposes of chapter 12 (within the meaning of section 2001(f)(2)), or, in the case of an allocation deemed to have been made at the close of an estate tax inclusion period, its value at the time of the close of the estate tax inclusion period, and

“(B) such allocation shall be effective on and after the date of such transfer, or, in the case of an allocation deemed to have been made at the close of an estate tax inclusion period, on and after the close of such estate tax inclusion period.”

(b) TRANSFERS AT DEATH.—Subparagraph (A) of section 2642(b)(2) is amended to read as follows:

“(A) TRANSFERS AT DEATH.—If property is transferred as a result of the death of the transferor, the value of such property for purposes of subsection (a) shall be its value as finally determined for purposes of chapter 11; except that, if the requirements prescribed by the Secretary respecting allocation of post-death changes in value are not met, the value of such property shall be determined as of the time of the distribution concerned.”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to transfers subject to chapter 11 or 12 of the Internal Revenue Code of 1986 made after December 31, 2000.

#### SEC. 564. RELIEF PROVISIONS.

(a) IN GENERAL.—Section 2642 is amended by adding at the end the following new subsection:

“(g) RELIEF PROVISIONS.—

“(1) RELIEF FROM LATE ELECTIONS.—

“(A) IN GENERAL.—The Secretary shall by regulation prescribe such circumstances and procedures under which extensions of time will be granted to make—

“(i) an allocation of GST exemption described in paragraph (1) or (2) of subsection (b), and

“(ii) an election under subsection (b)(3) or (c)(5) of section 2632.

Such regulations shall include procedures for requesting comparable relief with respect to transfers made before the date of the enactment of this paragraph.

“(B) BASIS FOR DETERMINATIONS.—In determining whether to grant relief under this



paragraph, the Secretary shall take into account all relevant circumstances, including evidence of intent contained in the trust instrument or instrument of transfer and such other factors as the Secretary deems relevant. For purposes of determining whether to grant relief under this paragraph, the time for making the allocation (or election) shall be treated as if not expressly prescribed by statute.

“(2) SUBSTANTIAL COMPLIANCE.—An allocation of GST exemption under section 2632 that demonstrates an intent to have the lowest possible inclusion ratio with respect to a transfer or a trust shall be deemed to be an allocation of so much of the transferor's unused GST exemption as produces the lowest possible inclusion ratio. In determining whether there has been substantial compliance, all relevant circumstances shall be taken into account, including evidence of intent contained in the trust instrument or instrument of transfer and such other factors as the Secretary deems relevant.”.

(b) EFFECTIVE DATES.—

(1) RELIEF FROM LATE ELECTIONS.—Section 2642(g)(1) of the Internal Revenue Code of 1986 (as added by subsection (a)) shall apply to requests pending on, or filed after, December 31, 2000.

(2) SUBSTANTIAL COMPLIANCE.—Section 2642(g)(2) of such Code (as so added) shall apply to transfers subject to chapter 11 or 12 of the Internal Revenue Code of 1986 made after December 31, 2000. No implication is intended with respect to the availability of relief from late elections or the application of a rule of substantial compliance on or before such date.

#### Subtitle H—Extension of Time for Payment of Estate Tax

#### SEC. 571. EXPANSION OF AVAILABILITY OF INSTALLMENT PAYMENT FOR ESTATES WITH INTERESTS QUALIFYING LENDING AND FINANCE BUSINESSES.

(a) IN GENERAL.—Section 6166(b) (relating to definitions and special rules) is amended by adding at the end the following new paragraph:

“(10) STOCK IN QUALIFYING LENDING AND FINANCE BUSINESS TREATED AS STOCK IN AN ACTIVE TRADE OR BUSINESS COMPANY.—

“(A) IN GENERAL.—If the executor elects the benefits of this paragraph, then—

“(i) STOCK IN QUALIFYING LENDING AND FINANCE BUSINESS TREATED AS STOCK IN AN ACTIVE TRADE OR BUSINESS COMPANY.—For purposes of this section, any asset used in a qualifying lending and finance business shall be treated as an asset which is used in carrying on a trade or business.

“(ii) 5-YEAR DEFERRAL FOR PRINCIPAL NOT TO APPLY.—The executor shall be treated as having selected under subsection (a)(3) the date prescribed by section 6151(a).

“(iii) 5 EQUAL INSTALLMENTS ALLOWED.—For purposes of applying subsection (a)(1), ‘5’ shall be substituted for ‘10’.

“(B) DEFINITIONS.—For purposes of this paragraph—

“(i) QUALIFYING LENDING AND FINANCE BUSINESS.—The term ‘qualifying lending and finance business’ means a lending and finance business, if—

“(I) based on all the facts and circumstances immediately before the date of the decedent's death, there was substantial activity with respect to the lending and finance business, or

“(II) during at least 3 of the 5 taxable years ending before the date of the decedent's death, such business had at least 1 full-time employee substantially all of the services of

whom were in the active management of such business, 10 full-time, nonowner employees substantially all of the services of whom were directly related to such business, and \$5,000,000 in gross receipts from activities described in clause (ii).

“(ii) LENDING AND FINANCE BUSINESS.—The term ‘lending and finance business’ means a trade or business of—

“(I) making loans,

“(II) purchasing or discounting accounts receivable, notes, or installment obligations,

“(III) engaging in rental and leasing of real and tangible personal property, including entering into leases and purchasing, servicing, and disposing of leases and leased assets,

“(IV) rendering services or making facilities available in the ordinary course of a lending or finance business, and

“(V) rendering services or making facilities available in connection with activities described in subclauses (I) through (IV) carried on by the corporation rendering services or making facilities available, or another corporation which is a member of the same affiliated group (as defined in section 1504 without regard to section 1504(b)(3)).

“(iii) LIMITATION.—The term ‘qualifying lending and finance business’ shall not include any interest in an entity, if the stock or debt of such entity or a controlled group (as defined in section 267(f)(1)) of which such entity was a member was readily tradable on an established securities market or secondary market (as defined by the Secretary) at any time within 3 years before the date of the decedent's death.”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to estates of decedents dying after December 31, 2001.

#### SEC. 572. CLARIFICATION OF AVAILABILITY OF INSTALLMENT PAYMENT.

(a) IN GENERAL.—Subparagraph (B) of section 6166(b)(8) (relating to all stock must be non-readily-tradable stock) is amended to read as follows:

“(B) ALL STOCK MUST BE NON-READILY-TRADABLE STOCK.—

“(i) IN GENERAL.—No stock shall be taken into account for purposes of applying this paragraph unless it is non-readily-tradable stock (within the meaning of paragraph (7)(B)).

“(ii) SPECIAL APPLICATION WHERE ONLY HOLDING COMPANY STOCK IS NON-READILY-TRADABLE STOCK.—If the requirements of clause (i) are not met, but all of the stock of any holding company taken into account is non-readily-tradable, then this paragraph shall apply, but subsection (a)(1) shall be applied by substituting ‘5’ for ‘10’.”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to estates of decedents dying after December 31, 2001.

#### Subtitle I—Compliance With Congressional Budget Act

#### SEC. 581. SUNSET OF PROVISIONS OF TITLE.

All provisions of, and amendments made by, this title which are in effect on September 30, 2011, shall cease to apply as of the close of September 30, 2011.

#### TITLE VI—PENSION AND INDIVIDUAL RETIREMENT ARRANGEMENT PROVISIONS

#### Subtitle A—Individual Retirement Accounts

#### SEC. 601. MODIFICATION OF IRA CONTRIBUTION LIMITS.

(a) INCREASE IN CONTRIBUTION LIMIT.—

(1) IN GENERAL.—Paragraph (1)(A) of section 219(b) (relating to maximum amount of deduction) is amended by striking “\$2,000” and inserting “the deductible amount”.

(2) DEDUCTIBLE AMOUNT.—Section 219(b) is amended by adding at the end the following new paragraph:

“(5) DEDUCTIBLE AMOUNT.—For purposes of paragraph (1)(A)—

“(A) IN GENERAL.—The deductible amount shall be determined in accordance with the following table:

For taxable years beginning in:	The deductible amount is:
2002 through 2005 .....	\$2,500
2006 and 2007 .....	\$3,000
2008 and 2009 .....	\$3,500
2010 .....	\$4,000
2011 and thereafter .....	\$5,000.

“(B) CATCH-UP CONTRIBUTIONS FOR INDIVIDUALS 50 OR OLDER.—

“(i) IN GENERAL.—In the case of an individual who has attained the age of 50 before the close of the taxable year, the deductible amount for such taxable year shall be increased by the applicable amount.

“(ii) APPLICABLE AMOUNT.—For purposes of clause (i), the applicable amount shall be the amount determined in accordance with the following table:

For taxable years beginning in:	The applicable amount is:
2002 through 2005 .....	\$500
2006 through 2009 .....	\$1,000
2010 .....	\$1,500
2011 and thereafter .....	\$2,000.

“(C) COST-OF-LIVING ADJUSTMENT.—

“(i) IN GENERAL.—In the case of any taxable year beginning in a calendar year after 2011, the \$5,000 amount under subparagraph (A) shall be increased by an amount equal to—

“(I) such dollar amount, multiplied by

“(II) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting ‘calendar year 2010’ for ‘calendar year 1992’ in subparagraph (B) thereof.

“(ii) ROUNDING RULES.—If any amount after adjustment under clause (i) is not a multiple of \$500, such amount shall be rounded to the next lower multiple of \$500.”.

(b) CONFORMING AMENDMENTS.—

(1) Section 408(a)(1) is amended by striking “in excess of \$2,000 on behalf of any individual” and inserting “on behalf of any individual in excess of the amount in effect for such taxable year under section 219(b)(1)(A)”.

(2) Section 408(b)(2)(B) is amended by striking “\$2,000” and inserting “the dollar amount in effect under section 219(b)(1)(A)”.

(3) Section 408(b) is amended by striking “\$2,000” in the matter following paragraph (4) and inserting “the dollar amount in effect under section 219(b)(1)(A)”.

(4) Section 408(j) is amended by striking “\$2,000”.

(5) Section 408(p)(8) is amended by striking “\$2,000” and inserting “the dollar amount in effect under section 219(b)(1)(A)”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

#### SEC. 602. DEEMED IRAS UNDER EMPLOYER PLANS.

(a) IN GENERAL.—Section 408 (relating to individual retirement accounts) is amended by redesignating subsection (q) as subsection (r) and by inserting after subsection (p) the following new subsection:

“(q) DEEMED IRAS UNDER QUALIFIED EMPLOYER PLANS.—

“(1) GENERAL RULE.—If—

“(A) a qualified employer plan elects to allow employees to make voluntary employee contributions to a separate account or annuity established under the plan, and

“(B) under the terms of the qualified employer plan, such account or annuity meets the applicable requirements of this section

or section 408A for an individual retirement account or annuity, then such account or annuity shall be treated for purposes of this title in the same manner as an individual retirement plan and not as a qualified employer plan (and contributions to such account or annuity as contributions to an individual retirement plan and not to the qualified employer plan). For purposes of subparagraph (B), the requirements of subsection (a)(5) shall not apply.

“(2) SPECIAL RULES FOR QUALIFIED EMPLOYER PLANS.—For purposes of this title, a qualified employer plan shall not fail to meet any requirement of this title solely by reason of establishing and maintaining a program described in paragraph (1).

“(3) DEFINITIONS.—For purposes of this subsection—

“(A) QUALIFIED EMPLOYER PLAN.—The term ‘qualified employer plan’ has the meaning given such term by section 72(p)(4); except such term shall only include an eligible deferred compensation plan (as defined in section 457(b)) which is maintained by an eligible employer described in section 457(e)(1)(A).

“(B) VOLUNTARY EMPLOYEE CONTRIBUTION.—The term ‘voluntary employee contribution’ means any contribution (other than a mandatory contribution within the meaning of section 411(c)(2)(C))—

“(i) which is made by an individual as an employee under a qualified employer plan which allows employees to elect to make contributions described in paragraph (1), and

“(ii) with respect to which the individual has designated the contribution as a contribution to which this subsection applies.”.

(b) AMENDMENT OF ERISA.—

(1) IN GENERAL.—Section 4 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1003) is amended by adding at the end the following new subsection:

“(c) If a pension plan allows an employee to elect to make voluntary employee contributions to accounts and annuities as provided in section 408(q) of the Internal Revenue Code of 1986, such accounts and annuities (and contributions thereto) shall not be treated as part of such plan (or as a separate pension plan) for purposes of any provision of this title other than section 403(c), 404, or 405 (relating to exclusive benefit, and fiduciary and co-fiduciary responsibilities).”.

(2) CONFORMING AMENDMENT.—Section 4(a) of such Act (29 U.S.C. 1003(a)) is amended by inserting “or (c)” after “subsection (b)”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to plan years beginning after December 31, 2002.

#### SEC. 603. TAX-FREE DISTRIBUTIONS FROM INDIVIDUAL RETIREMENT ACCOUNTS FOR CHARITABLE PURPOSES.

(a) IN GENERAL.—Subsection (d) of section 408 (relating to individual retirement accounts) is amended by adding at the end the following new paragraph:

“(8) DISTRIBUTIONS FOR CHARITABLE PURPOSES.—

“(A) IN GENERAL.—In the case of a qualified charitable distribution from an individual retirement account to an organization described in section 170(c), no amount shall be includible in the gross income of the account holder or beneficiary.

“(B) SPECIAL RULES RELATING TO CHARITABLE REMAINDER TRUSTS, POOLED INCOME FUNDS, AND CHARITABLE GIFT ANNUITIES.—

“(i) IN GENERAL.—In the case of a qualified charitable distribution from an individual retirement account—

“(I) to a charitable remainder annuity trust or a charitable remainder unitrust (as such terms are defined in section 664(d)),

“(II) to a pooled income fund (as defined in section 642(c)(5)), or

“(III) for the issuance of a charitable gift annuity (as defined in section 501(m)(5)), no amount shall be includible in gross income of the account holder or beneficiary. The preceding sentence shall apply only if no person holds any interest in the amounts in the trust, fund, or annuity attributable to such distribution other than one or more of the following: the individual for whose benefit such account is maintained, the spouse of such individual, or any organization described in section 170(c).

“(ii) DETERMINATION OF INCLUSION OF AMOUNTS DISTRIBUTED.—In determining the amount includible in the gross income of the distributee of a distribution from a trust described in clause (i)(I) or an annuity described in clause (i)(II), the portion of any qualified charitable distribution to such trust or for such annuity which would (but for this subparagraph) have been includible in gross income—

“(I) in the case of any such trust, shall be treated as income described in section 664(b)(1), or

“(II) in the case of any such annuity, shall not be treated as an investment in the contract.

“(iii) NO INCLUSION FOR DISTRIBUTION TO POOLED INCOME FUND.—No amount shall be includible in the gross income of a pooled income fund (as so defined) by reason of a qualified charitable distribution to such fund.

“(C) QUALIFIED CHARITABLE DISTRIBUTION.—For purposes of this paragraph, the term ‘qualified charitable distribution’ means any distribution from an individual retirement account—

“(i) which is made on or after the date that the individual for whose benefit the account is maintained has attained age 70½, and

“(ii) which is a charitable contribution (as defined in section 170(c)) made directly from the account to—

“(I) an organization described in section 170(c), or

“(II) a trust, fund, or annuity described in subparagraph (B).

“(D) DENIAL OF DEDUCTION.—The amount allowable as a deduction to the taxpayer for the taxable year under section 170 (before the application of section 170(b)) for qualified charitable distributions shall be reduced (but not below zero) by the sum of the amounts of the qualified charitable distributions during such year which (but for this paragraph) would have been includible in the gross income of the taxpayer for such year.”.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 2009.

#### Subtitle B—Expanding Coverage

#### SEC. 611. INCREASE IN BENEFIT AND CONTRIBUTION LIMITS.

(a) DEFINED BENEFIT PLANS.—

(1) DOLLAR LIMIT.—

(A) Subparagraph (A) of section 415(b)(1) (relating to limitation for defined benefit plans) is amended by striking “\$90,000” and inserting “the applicable limit”.

(B) Section 415(b) is amended by adding at the end the following new paragraph:

“(12) APPLICABLE LIMIT.—For purposes of paragraph (1)(A), the applicable limit shall be determined in accordance with the following table:

“For taxable years beginning in:	The applicable limit is:
2002, 2003, and 2004 .....	\$150,000
2005 and thereafter .....	\$160,000.”.

(C) Subparagraphs (C) and (D) of section 415(b)(2) are each amended—

(i) in the headings, by striking “\$90,000” and inserting “APPLICABLE”.

(ii) by striking “\$90,000 limitation” each place it appears and inserting “limitation”, and

(iii) by striking “a \$90,000 annual benefit” each place it appears and inserting “an annual benefit equal to the applicable limit”.

(D) Paragraph (7) of section 415(b) (relating to benefits under certain collectively bargained plans) is amended by striking “the greater of \$68,212 or one-half the amount otherwise applicable for such year under paragraph (1)(A) for ‘\$90,000’” and inserting “one-half the amount otherwise applicable for such year under paragraph (1)(A) for ‘the applicable limit’”.

(2) LIMIT REDUCED WHEN BENEFIT BEGINS BEFORE AGE 62.—Subparagraph (C) of section 415(b)(2) is amended by striking “the social security retirement age” each place it appears in the heading and text and inserting “age 62” and by striking the second sentence.

(3) LIMIT INCREASED WHEN BENEFIT BEGINS AFTER AGE 65.—Subparagraph (D) of section 415(b)(2) is amended by striking “the social security retirement age” each place it appears in the heading and text and inserting “age 65”.

(4) COST-OF-LIVING ADJUSTMENTS.—Subsection (d) of section 415 (related to cost-of-living adjustments) is amended—

(A) by striking “\$90,000” in paragraph (1)(A) and inserting “applicable limit”; and

(B) in paragraph (3)(A)—

(i) by striking “\$90,000” in the heading and inserting “applicable limit”; and

(ii) by striking “October 1, 1986” and inserting “July 1, 2004”.

(5) CONFORMING AMENDMENTS.—

(A) Section 415(b)(2) is amended by striking subparagraph (F).

(B) Section 415(b)(9) is amended to read as follows:

“(9) SPECIAL RULE FOR COMMERCIAL AIRLINE PILOTS.—In the case of any participant who is a commercial airline pilot, if, as of the time of the participant’s retirement, regulations prescribed by the Federal Aviation Administration require an individual to separate from service as a commercial airline pilot after attaining any age occurring on or after age 60 and before age 62, paragraph (2)(C) shall be applied by substituting such age for age 62.”.

(C) Section 415(b)(10)(C)(i) is amended by striking “applied without regard to paragraph (2)(F)”.

(b) QUALIFIED TRUSTS.—

(1) COMPENSATION LIMIT.—

(A) Section 401(a)(17) is amended—

(i) in subparagraph (A), by striking “\$150,000” and inserting “the applicable dollar amount”.

(ii) in subparagraph (B), by striking “\$150,000” and inserting “the applicable dollar”, and

(iii) by adding at the end the following:

“(C) APPLICABLE DOLLAR AMOUNT.—For purposes of this paragraph, the applicable dollar amount shall be determined in accordance with the following table:

“For taxable years beginning in calendar year:	The applicable dollar amount:
2002 .....	\$180,000
2003 .....	\$190,000
2004 or thereafter .....	\$200,000.”.

(B) Section 404(l) is amended—

(i) by striking the second sentence,

(ii) by striking “\$150,000” and inserting “the applicable dollar amount in effect under section 401(a)(17)(A)”, and

(iii) by striking “the preceding sentence” and inserting “section 401(a)(17)(B)”.

(C) Section 408(k) is amended—

(i) in each of paragraphs (3)(C) and (6)(D)(ii), by striking “\$150,000” each place it appears and inserting “amount of compensation equal to the applicable dollar amount in effect under section 401(a)(17)(A)”, and

(ii) in paragraph (8), by striking “and shall adjust” and all that follows through “section 401(a)(17)(B)”.

(D) Section 505(b)(7) is amended—

(i) by striking “\$150,000” and inserting “the applicable dollar amount in effect under section 401(a)(17)(A)”, and

(ii) by striking the second sentence.

(2) BASE PERIOD AND ROUNDING OF COST-OF-LIVING ADJUSTMENT.—Subparagraph (B) of section 401(a)(17) is amended—

(A) by striking “The Secretary” and inserting “In calendar years beginning after 2005, the Secretary”,

(B) by striking “October 1, 1993” and inserting “July 1, 2005”; and

(C) by striking “\$10,000” both places it appears and inserting “\$5,000”.

(c) ELECTIVE DEFERRALS.—

(1) IN GENERAL.—Paragraph (1) of section 402(g) (relating to limitation on exclusion for elective deferrals) is amended to read as follows:

“(1) IN GENERAL.—

“(A) LIMITATION.—Notwithstanding subsections (e)(3) and (h)(1)(B), the elective deferrals of any individual for any taxable year shall be included in such individual’s gross income to the extent the amount of such deferrals for the taxable year exceeds the applicable dollar amount.

“(B) APPLICABLE DOLLAR AMOUNT.—For purposes of subparagraph (A), the applicable dollar amount shall be the amount determined in accordance with the following table:

<b>For taxable years beginning in calendar year:</b>	<b>The applicable dollar amount:</b>
2002 .....	\$11,000
2003 .....	\$11,500
2004 .....	\$12,000
2005 .....	\$12,500
2006 .....	\$13,000
2007 .....	\$13,500
2008 .....	\$14,000
2009 .....	\$14,500
2010 or thereafter .....	\$15,000.”.

(2) COST-OF-LIVING ADJUSTMENT.—Paragraph (5) of section 402(g) is amended to read as follows:

“(5) COST-OF-LIVING ADJUSTMENT.—In the case of taxable years beginning after December 31, 2010, the Secretary shall adjust the \$15,000 amount under paragraph (1)(B) at the same time and in the same manner as under section 415(d), except that the base period shall be the calendar quarter beginning July 1, 2009, and any increase under this paragraph which is not a multiple of \$500 shall be rounded to the next lowest multiple of \$500.”.

(3) CONFORMING AMENDMENTS.—

(A) Section 402(g) (relating to limitation on exclusion for elective deferrals), as amended by paragraphs (1) and (2), is further amended by striking paragraph (4) and redesignating paragraphs (5), (6), (7), (8), and (9) as paragraphs (4), (5), (6), (7), and (8), respectively.

(B) Paragraph (2) of section 457(c) is amended by striking “402(g)(8)(A)(iii)” and inserting “402(g)(7)(A)(iii)”.

(C) Clause (iii) of section 501(c)(18)(D) is amended by striking “(other than paragraph (4) thereof)”.

(d) DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.—

(1) IN GENERAL.—Section 457 (relating to deferred compensation plans of State and local governments and tax-exempt organizations) is amended—

(A) in subsections (b)(2)(A) and (c)(1) by striking “\$7,500” each place it appears and inserting “the applicable dollar amount”; and

(B) in subsection (b)(3)(A) by striking “\$15,000” and inserting “twice the dollar amount in effect under subsection (b)(2)(A)”.

(2) APPLICABLE DOLLAR AMOUNT; COST-OF-LIVING ADJUSTMENT.—Paragraph (15) of section 457(e) is amended to read as follows:

“(15) APPLICABLE DOLLAR AMOUNT.—

“(A) IN GENERAL.—The applicable dollar amount shall be the amount determined in accordance with the following table:

<b>For taxable years beginning in calendar year:</b>	<b>The applicable dollar amount:</b>
2002 .....	\$9,000
2003 .....	\$9,500
2004 .....	\$10,000
2005 .....	\$10,500
2006 .....	\$11,000
2007 .....	\$12,000
2008 .....	\$13,000
2009 .....	\$14,000
2010 or thereafter .....	\$15,000.

“(B) COST-OF-LIVING ADJUSTMENTS.—In the case of taxable years beginning after December 31, 2010, the Secretary shall adjust the \$15,000 amount under subparagraph (A) at the same time and in the same manner as under section 415(d), except that the base period shall be the calendar quarter beginning July 1, 2009, and any increase under this paragraph which is not a multiple of \$500 shall be rounded to the next lowest multiple of \$500.”.

(e) SIMPLE RETIREMENT ACCOUNTS.—

(1) LIMITATION.—Clause (ii) of section 408(p)(2)(A) (relating to general rule for qualified salary reduction arrangement) is amended by striking “\$6,000” and inserting “the applicable dollar amount”.

(2) APPLICABLE DOLLAR AMOUNT.—Subparagraph (E) of 408(p)(2) is amended to read as follows:

“(E) APPLICABLE DOLLAR AMOUNT; COST-OF-LIVING ADJUSTMENT.—

“(i) IN GENERAL.—For purposes of subparagraph (A)(ii), the applicable dollar amount shall be the amount determined in accordance with the following table:

<b>For taxable years beginning in calendar year:</b>	<b>The applicable dollar amount:</b>
2002 and 2003 .....	\$7,000
2004 and 2005 .....	\$8,000
2006 and 2007 .....	\$9,000
2008 or thereafter .....	\$10,000.

“(ii) COST-OF-LIVING ADJUSTMENT.—In the case of a year beginning after December 31, 2008, the Secretary shall adjust the \$10,000 amount under clause (i) at the same time and in the same manner as under section 415(d), except that the base period taken into account shall be the calendar quarter beginning July 1, 2007, and any increase under this subparagraph which is not a multiple of \$500 shall be rounded to the next lower multiple of \$500.”.

(3) CONFORMING AMENDMENTS.—

(A) Subclause (I) of section 401(k)(11)(B)(i) is amended by striking “\$6,000” and inserting

“the amount in effect under section 408(p)(2)(A)(ii)”.

(B) Section 401(k)(11) is amended by striking subparagraph (E).

(f) ROUNDING RULE RELATING TO DEFINED BENEFIT PLANS AND DEFINED CONTRIBUTION PLANS.—Paragraph (4) of section 415(d) is amended to read as follows:

“(4) ROUNDING.—

“(A) APPLICABLE LIMIT AMOUNT.—Any increase under subparagraph (A) of paragraph (1) which is not a multiple of \$5,000 shall be rounded to the next lowest multiple of \$5,000.

“(B) \$30,000 AMOUNT.—Any increase under subparagraph (C) of paragraph (1) which is not a multiple of \$1,000 shall be rounded to the next lowest multiple of \$1,000.”.

(g) EFFECTIVE DATE.—The amendments made by this section shall apply to years beginning after December 31, 2001.

#### **SEC. 612. PLAN LOANS FOR SUBCHAPTER S OWNERS, PARTNERS, AND SOLE PROPRIETORS.**

(a) IN GENERAL.—Subparagraph (B) of section 4975(f)(6) (relating to exemptions not to apply to certain transactions) is amended by adding at the end the following new clause:

“(iii) LOAN EXCEPTION.—For purposes of subparagraph (A)(i), the term ‘owner-employee’ shall only include a person described in subclause (II) or (III) of clause (i).”.

(b) AMENDMENT OF ERISA.—Section 408(d)(2) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1108(d)(2)) is amended by adding at the end the following new subparagraph:

“(C) For purposes of paragraph (1)(A), the term ‘owner-employee’ shall only include a person described in clause (ii) or (iii) of subparagraph (A).”.

(c) EFFECTIVE DATE.—The amendment made by this section shall apply to years beginning after December 31, 2001.

#### **SEC. 613. MODIFICATION OF TOP-HEAVY RULES.**

(a) SIMPLIFICATION OF DEFINITION OF KEY EMPLOYEE.—

(1) IN GENERAL.—Section 416(i)(1)(A) (defining key employee) is amended—

(A) by striking “or any of the 4 preceding plan years” in the matter preceding clause (i);

(B) by striking clause (i) and inserting the following:

“(i) an officer of the employer having an annual compensation greater than the amount in effect under section 414(q)(1)(B)(i) for such plan year.”;

(C) by striking clause (ii) and redesignating clauses (iii) and (iv) as clauses (ii) and (iii), respectively;

(D) by striking the second sentence in the matter following clause (iii), as redesignated by subparagraph (C); and

(E) by adding at the end the following:

“For purposes of this subparagraph, in the case of an employee who is not employed during the preceding plan year or is employed for a portion of such year, such employee shall be treated as a key employee if it can be reasonably anticipated that such employee will be described in 1 of the preceding clauses for the current plan year.”.

(2) CONFORMING AMENDMENT.—Section 416(i)(1)(B)(iii) is amended by striking “and subparagraph (A)(ii)”.

(b) MATCHING CONTRIBUTIONS TAKEN INTO ACCOUNT FOR MINIMUM CONTRIBUTION REQUIREMENTS.—Section 416(c)(2)(A) (relating to defined contribution plans) is amended by adding at the end the following: “Employer matching contributions (as defined in section 401(m)(4)(A)) shall be taken into account for purposes of this subparagraph.”.

(c) DISTRIBUTIONS DURING LAST YEAR BEFORE DETERMINATION DATE TAKEN INTO ACCOUNT.—

(1) IN GENERAL.—Paragraph (3) of section 416(g) is amended to read as follows:

“(3) DISTRIBUTIONS DURING LAST YEAR BEFORE DETERMINATION DATE TAKEN INTO ACCOUNT.—

“(A) IN GENERAL.—For purposes of determining—

“(i) the present value of the cumulative accrued benefit for any employee, or

“(ii) the amount of the account of any employee,

such present value or amount shall be increased by the aggregate distributions made with respect to such employee under the plan during the 1-year period ending on the determination date. The preceding sentence shall also apply to distributions under a terminated plan which if it had not been terminated would have been required to be included in an aggregation group.

“(B) 5-YEAR PERIOD IN CASE OF IN-SERVICE DISTRIBUTION.—In the case of any distribution made for a reason other than separation from service, death, or disability, subparagraph (A) shall be applied by substituting ‘5-year period’ for ‘1-year period’.”

(2) BENEFITS NOT TAKEN INTO ACCOUNT.—Subparagraph (E) of section 416(g)(4) is amended—

(A) by striking “LAST 5 YEARS” in the heading and inserting “LAST YEAR BEFORE DETERMINATION DATE”; and

(B) by striking “5-year period” and inserting “1-year period”.

(d) FROZEN PLAN EXEMPT FROM MINIMUM BENEFIT REQUIREMENT.—Subparagraph (C) of section 416(c)(1) (relating to defined benefit plans) is amended—

(A) by striking “clause (ii)” in clause (i) and inserting “clause (ii) or (iii)”; and

(B) by adding at the end the following:

“(iii) EXCEPTION FOR FROZEN PLAN.—For purposes of determining an employee’s years of service with the employer, any service with the employer shall be disregarded to the extent that such service occurs during a plan year when the plan benefits (within the meaning of section 410(b)) no key employee or former key employee.”

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to years beginning after December 31, 2001.

#### SEC. 614. ELECTIVE DEFERRALS NOT TAKEN INTO ACCOUNT FOR PURPOSES OF DEDUCTION LIMITS.

(a) IN GENERAL.—Section 404 (relating to deduction for contributions of an employer to an employee’s trust or annuity plan and compensation under a deferred payment plan) is amended by adding at the end the following new subsection:

“(n) ELECTIVE DEFERRALS NOT TAKEN INTO ACCOUNT FOR PURPOSES OF DEDUCTION LIMITS.—

“(1) IN GENERAL.—The applicable percentage of the amount of any elective deferrals (as defined in section 402(g)(3)) shall not be subject to any limitation contained in paragraph (3), (7), or (9) of subsection (a), and such elective deferrals shall not be taken into account in applying any such limitation to any other contributions.

“(2) APPLICABLE PERCENTAGE.—For purposes of paragraph (1), the applicable percentage shall be determined in accordance with the following table:

For taxable years beginning in:	The applicable percentage is:
2002 through 2010 .....	25 percent
2011 and thereafter .....	100 percent

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to years beginning after December 31, 2001.

#### SEC. 615. REPEAL OF COORDINATION REQUIREMENTS FOR DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.

(a) IN GENERAL.—Subsection (c) of section 457 (relating to deferred compensation plans of State and local governments and tax-exempt organizations), as amended by section 611, is amended to read as follows:

“(c) LIMITATION.—The maximum amount of the compensation of any one individual which may be deferred under subsection (a) during any taxable year shall not exceed the amount in effect under subsection (b)(2)(A) (as modified by any adjustment provided under subsection (b)(3)).”

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to years beginning after December 31, 2001.

#### SEC. 616. DEDUCTION LIMITS.

(a) MODIFICATION OF LIMITS.—

(1) STOCK BONUS AND PROFIT SHARING TRUSTS.—

(A) IN GENERAL.—Subclause (I) of section 404(a)(3)(A)(i) (relating to stock bonus and profit sharing trusts) is amended by striking “15 percent” and inserting “25 percent”.

(B) CONFORMING AMENDMENT.—Subparagraph (C) of section 404(h)(1) is amended by striking “15 percent” each place it appears and inserting “25 percent”.

(2) DEFINED CONTRIBUTION PLANS.—

(A) IN GENERAL.—Clause (v) of section 404(a)(3)(A) (relating to stock bonus and profit sharing trusts) is amended to read as follows:

“(v) DEFINED CONTRIBUTION PLANS SUBJECT TO THE FUNDING STANDARDS.—Except as provided by the Secretary, a defined contribution plan which is subject to the funding standards of section 412 shall be treated in the same manner as a stock bonus or profit-sharing plan for purposes of this subparagraph.”

(B) CONFORMING AMENDMENTS.—

(i) Section 404(a)(1)(A) is amended by inserting “(other than a trust to which paragraph (3) applies)” after “pension trust”.

(ii) Section 404(h)(2) is amended by striking “stock bonus or profit-sharing trust” and inserting “trust subject to subsection (a)(3)(A)”.

(iii) The heading of section 404(h)(2) is amended by striking “STOCK BONUS AND PROFIT-SHARING TRUST” and inserting “CERTAIN TRUSTS”.

(b) COMPENSATION.—

(1) IN GENERAL.—Section 404(a) (relating to general rule) is amended by adding at the end the following:

“(12) DEFINITION OF COMPENSATION.—For purposes of paragraphs (3), (7), (8), and (9), the term ‘compensation’ shall include amounts treated as ‘participant’s compensation’ under subparagraph (C) or (D) of section 415(c)(3).”

(2) CONFORMING AMENDMENTS.—

(A) Subparagraph (B) of section 404(a)(3) is amended by striking the last sentence thereof.

(B) Clause (i) of section 4972(c)(6)(B) is amended by striking “(within the meaning of section 404(a))” and inserting “(within the meaning of section 404(a) and as adjusted under section 404(a)(12))”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to years beginning after December 31, 2001.

#### SEC. 617. OPTION TO TREAT ELECTIVE DEFERRALS AS AFTER-TAX ROTH CONTRIBUTIONS.

(a) IN GENERAL.—Subpart A of part I of subchapter D of chapter 1 (relating to deferred compensation, etc.) is amended by inserting after section 402 the following new section:

##### “SEC. 402A. OPTIONAL TREATMENT OF ELECTIVE DEFERRALS AS ROTH CONTRIBUTIONS.

“(a) GENERAL RULE.—If an applicable retirement plan includes a qualified Roth contribution program—

“(1) any designated Roth contribution made by an employee pursuant to the program shall be treated as an elective deferral for purposes of this chapter, except that such contribution shall not be excludable from gross income, and

“(2) such plan (and any arrangement which is part of such plan) shall not be treated as failing to meet any requirement of this chapter solely by reason of including such program.

“(b) QUALIFIED ROTH CONTRIBUTION PROGRAM.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified Roth contribution program’ means a program under which an employee may elect to make designated Roth contributions in lieu of all or a portion of elective deferrals the employee is otherwise eligible to make under the applicable retirement plan.

“(2) SEPARATE ACCOUNTING REQUIRED.—A program shall not be treated as a qualified Roth contribution program unless the applicable retirement plan—

“(A) establishes separate accounts (‘designated Roth accounts’) for the designated Roth contributions of each employee and any earnings properly allocable to the contributions, and

“(B) maintains separate recordkeeping with respect to each account.

“(c) DEFINITIONS AND RULES RELATING TO DESIGNATED ROTH CONTRIBUTIONS.—For purposes of this section—

“(1) DESIGNATED ROTH CONTRIBUTION.—The term ‘designated Roth contribution’ means any elective deferral which—

“(A) is excludable from gross income of an employee without regard to this section, and

“(B) the employee designates (at such time and in such manner as the Secretary may prescribe) as not being so excludable.

“(2) DESIGNATION LIMITS.—The amount of elective deferrals which an employee may designate under paragraph (1) shall not exceed the excess (if any) of—

“(A) the maximum amount of elective deferrals excludable from gross income of the employee for the taxable year (without regard to this section), over

“(B) the aggregate amount of elective deferrals of the employee for the taxable year which the employee does not designate under paragraph (1).

“(3) ROLLOVER CONTRIBUTIONS.—

“(A) IN GENERAL.—A rollover contribution of any payment or distribution from a designated Roth account which is otherwise allowable under this chapter may be made only if the contribution is to—

“(i) another designated Roth account of the individual from whose account the payment or distribution was made, or

“(ii) a Roth IRA of such individual.

“(B) COORDINATION WITH LIMIT.—Any rollover contribution to a designated Roth account under subparagraph (A) shall not be taken into account for purposes of paragraph (1).

“(d) DISTRIBUTION RULES.—For purposes of this title—

“(1) EXCLUSION.—Any qualified distribution from a designated Roth account shall not be includible in gross income.

“(2) QUALIFIED DISTRIBUTION.—For purposes of this subsection—

“(A) IN GENERAL.—The term ‘qualified distribution’ has the meaning given such term by section 408A(d)(2)(A) (without regard to clause (iv) thereof).

“(B) DISTRIBUTIONS WITHIN NONEXCLUSION PERIOD.—A payment or distribution from a designated Roth account shall not be treated as a qualified distribution if such payment or distribution is made within the 5-taxable-year period beginning with the earlier of—

“(i) the first taxable year for which the individual made a designated Roth contribution to any designated Roth account established for such individual under the same applicable retirement plan, or

“(ii) if a rollover contribution was made to such designated Roth account from a designated Roth account previously established for such individual under another applicable retirement plan, the first taxable year for which the individual made a designated Roth contribution to such previously established account.

“(C) DISTRIBUTIONS OF EXCESS DEFERRALS AND CONTRIBUTIONS AND EARNINGS THEREON.—The term ‘qualified distribution’ shall not include any distribution of any excess deferral under section 402(g)(2) or any excess contribution under section 401(k)(8), and any income on the excess deferral or contribution.

“(3) TREATMENT OF DISTRIBUTIONS OF CERTAIN EXCESS DEFERRALS.—Notwithstanding section 72, if any excess deferral under section 402(g)(2) attributable to a designated Roth contribution is not distributed on or before the 1st April 15 following the close of the taxable year in which such excess deferral is made, the amount of such excess deferral shall—

“(A) not be treated as investment in the contract, and

“(B) be included in gross income for the taxable year in which such excess is distributed.

“(4) AGGREGATION RULES.—Section 72 shall be applied separately with respect to dis-

tributions and payments from a designated Roth account and other distributions and payments from the plan.

“(e) OTHER DEFINITIONS.—For purposes of this section—

“(1) APPLICABLE RETIREMENT PLAN.—The term ‘applicable retirement plan’ means—

“(A) an employees’ trust described in section 401(a) which is exempt from tax under section 501(a), and

“(B) a plan under which amounts are contributed by an individual’s employer for an annuity contract described in section 403(b).

“(2) ELECTIVE DEFERRAL.—The term ‘elective deferral’ means any elective deferral described in subparagraph (A) or (C) of section 402(g)(3).”.

(b) EXCESS DEFERRALS.—Section 402(g) (relating to limitation on exclusion for elective deferrals) is amended—

(1) by adding at the end of paragraph (1)(A) (as added by section 201(c)(1)) the following new sentence: “The preceding sentence shall not apply the portion of such excess as does not exceed the designated Roth contributions of the individual for the taxable year.”; and

(2) by inserting “(or would be included but for the last sentence thereof)” after “paragraph (1)” in paragraph (2)(A).

(c) ROLLOVERS.—Subparagraph (B) of section 402(c)(8) is amended by adding at the end the following:

“If any portion of an eligible rollover distribution is attributable to payments or distributions from a designated Roth account (as defined in section 402A), an eligible retirement plan with respect to such portion shall include only another designated Roth account and a Roth IRA.”.

(d) REPORTING REQUIREMENTS.—

(1) W-2 INFORMATION.—Section 6051(a)(8) is amended by inserting “, including the amount of designated Roth contributions (as defined in section 402A)” before the comma at the end.

(2) INFORMATION.—Section 6047 is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

“(f) DESIGNATED ROTH CONTRIBUTIONS.—The Secretary shall require the plan administrator of each applicable retirement plan (as defined in section 402A) to make such returns and reports regarding designated Roth contributions (as defined in section 402A) to the Secretary, participants and beneficiaries of the plan, and such other persons as the Secretary may prescribe.”.

(e) CONFORMING AMENDMENTS.—

(1) Section 408A(e) is amended by adding after the first sentence the following new sentence: “Such term includes a rollover contribution described in section 402A(c)(3)(A).”.

(2) The table of sections for subpart A of part I of subchapter D of chapter 1 is amended by inserting after the item relating to section 402 the following new item:

“Sec. 402A. Optional treatment of elective deferrals as Roth contributions.”.

(f) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2003.

**SEC. 618. NONREFUNDABLE CREDIT TO CERTAIN INDIVIDUALS FOR ELECTIVE DEFERRALS AND IRA CONTRIBUTIONS.**

(a) IN GENERAL.—Subpart A of part IV of subchapter A of chapter 1 (relating to non-refundable personal credits), as amended by section 432, is amended by inserting after section 25B the following new section:

**“SEC. 25C. ELECTIVE DEFERRALS AND IRA CONTRIBUTIONS BY CERTAIN INDIVIDUALS.**

“(a) ALLOWANCE OF CREDIT.—In the case of an eligible individual, there shall be allowed as a credit against the tax imposed by this subtitle for the taxable year an amount equal to the applicable percentage of so much of the qualified retirement savings contributions of the eligible individual for the taxable year as do not exceed \$2,000.

“(b) APPLICABLE PERCENTAGE.—For purposes of this section, the applicable percentage is the percentage determined in accordance with the following table:

Adjusted Gross Income							Applicable percentage
Joint return		Head of a household		All other cases			
Over	Not over	Over	Not over	Over	Not over		
\$0	\$30,000	\$0	\$22,500	\$0	\$15,000	50	
30,000	32,500	22,500	24,375	15,000	16,250	20	
32,500	50,000	24,375	37,500	16,250	25,000	10	
50,000	.....	37,500	.....	25,000	.....	0	

“(c) ELIGIBLE INDIVIDUAL.—For purposes of this section—

“(1) IN GENERAL.—The term ‘eligible individual’ means any individual if such individual has attained the age of 18 as of the close of the taxable year.

“(2) DEPENDENTS AND FULL-TIME STUDENTS NOT ELIGIBLE.—The term ‘eligible individual’ shall not include—

“(A) any individual with respect to whom a deduction under section 151 is allowed to another taxpayer for a taxable year beginning in the calendar year in which such individual’s taxable year begins, and

“(B) any individual who is a student (as defined in section 151(c)(4)).

“(d) QUALIFIED RETIREMENT SAVINGS CONTRIBUTIONS.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified retirement savings contributions’ means, with respect to any taxable year, the sum of—

“(A) the amount of the qualified retirement contributions (as defined in section 219(e)) made by the eligible individual,

“(B) the amount of—

“(i) any elective deferrals (as defined in section 402(g)(3)) of such individual, and

“(ii) any elective deferral of compensation by such individual under an eligible deferred compensation plan (as defined in section 457(b)) of an eligible employer described in section 457(e)(1)(A), and

“(C) the amount of voluntary employee contributions by such individual to any qualified retirement plan (as defined in section 4974(c)).

“(2) REDUCTION FOR CERTAIN DISTRIBUTIONS.—

“(A) IN GENERAL.—The qualified retirement savings contributions determined under paragraph (1) shall be reduced (but not below zero) by the sum of—

“(i) any distribution from a qualified retirement plan (as defined in section 4974(c)), or from an eligible deferred compensation plan (as defined in section 457(b)), received by the individual during the testing period which is includible in gross income, and

“(ii) any distribution from a Roth IRA received by the individual during the testing period which is not a qualified rollover contribution (as defined in section 408A(e)) to a Roth IRA.

“(B) TESTING PERIOD.—For purposes of subparagraph (A), the testing period, with respect to a taxable year, is the period which includes—

“(i) such taxable year,

“(ii) the 2 preceding taxable years, and

“(iii) the period after such taxable year and before the due date (including extensions) for filing the return of tax for such taxable year.

“(C) EXCEPTED DISTRIBUTIONS.—There shall not be taken into account under subparagraph (A)—

“(i) any distribution referred to in section 72(p), 401(k)(8), 401(m)(6), 402(g)(2), 404(k), or 408(d)(4), and

“(ii) any distribution to which section 408A(d)(3) applies.

“(D) TREATMENT OF DISTRIBUTIONS RECEIVED BY SPOUSE OF INDIVIDUAL.—For purposes of determining distributions received by an individual under subparagraph (A) for any taxable year, any distribution received by the spouse of such individual shall be treated as received by such individual if such individual and spouse file a joint return for such taxable year and for the taxable year during which the spouse receives the distribution.

“(e) ADJUSTED GROSS INCOME.—For purposes of this section, adjusted gross income shall be determined without regard to sections 911, 931, and 933.

“(f) INVESTMENT IN THE CONTRACT.—Notwithstanding any other provision of law, a qualified retirement savings contribution shall not fail to be included in determining the investment in the contract for purposes of section 72 by reason of the credit under this section.

“(g) TERMINATION.—This section shall not apply to taxable years beginning after December 31, 2006.”

(b) CREDIT ALLOWED AGAINST REGULAR TAX AND ALTERNATIVE MINIMUM TAX.—

(1) IN GENERAL.—Section 25C, as added by subsection (a), is amended by inserting after subsection (f) the following new subsection:

“(g) LIMITATION BASED ON AMOUNT OF TAX.—The aggregate credit allowed by this section for the taxable year shall not exceed the sum of—

“(1) the taxpayer's regular tax liability for the taxable year reduced by the sum of the credits allowed by sections 21, 22, 23, 24, 25, 25A, and 25B plus

“(2) the tax imposed by section 55 for such taxable year.”

(2) CONFORMING AMENDMENTS.—

(A) Section 26(a)(1), as amended by section 201, is amended by inserting “or section 25C” after “section 24”.

(B) Section 23(c), as amended by section 201, is amended by striking “sections 24” and inserting “sections 24, 25C.”

(C) Section 25(e)(1)(C), as amended by section 201, is amended by inserting “25C,” after “24.”

(D) Section 904(h), as amended by section 201, is amended by inserting “or 25C” after “section 24”.

(E) Section 1400C(d), as amended by section 201, is amended by inserting “and section 25C” after “section 24”.

(c) CONFORMING AMENDMENT.—The table of sections for subpart A of part IV of subchapter A of chapter 1, as amended by section 432, is amended by inserting after the item relating to section 25B the following new item:

“Sec. 25C. Elective deferrals and IRA contributions by certain individuals.”

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

#### SEC. 619. CREDIT FOR QUALIFIED PENSION PLAN CONTRIBUTIONS OF SMALL EMPLOYERS.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits) is amended by adding at the end the following new section:

#### “SEC. 45E. SMALL EMPLOYER PENSION PLAN CONTRIBUTIONS.

“(a) GENERAL RULE.—For purposes of section 38, in the case of an eligible employer, the small employer pension plan contribution credit determined under this section for any taxable year is an amount equal to 50 percent of the amount which would (but for subsection (f)(1)) be allowed as a deduction under section 404 for such taxable year for qualified employer contributions made to any qualified retirement plan on behalf of any employee who is not a highly compensated employee.

“(b) CREDIT LIMITED TO 3 YEARS.—The credit allowable by this section shall be allowed only with respect to the period of 3 taxable years beginning with the first taxable year for which a credit is allowable with respect to a plan under this section.

“(c) QUALIFIED EMPLOYER CONTRIBUTION.—For purposes of this section—

“(1) DEFINED CONTRIBUTION PLANS.—In the case of a defined contribution plan, the term ‘qualified employer contribution’ means the amount of nonelective and matching contributions to the plan made by the employer on behalf of any employee who is not a highly compensated employee to the extent such amount does not exceed 3 percent of such employee's compensation from the employer for the year.

“(2) DEFINED BENEFIT PLANS.—In the case of a defined benefit plan, the term ‘qualified employer contribution’ means the amount of employer contributions to the plan made on behalf of any employee who is not a highly compensated employee to the extent that the accrued benefit of such employee derived from employer contributions for the year does not exceed the equivalent (as determined under regulations prescribed by the Secretary and without regard to contributions and benefits under the Social Security Act) of 3 percent of such employee's compensation from the employer for the year.

“(d) QUALIFIED RETIREMENT PLAN.—

“(1) IN GENERAL.—The term ‘qualified retirement plan’ means any plan described in section 401(a) which includes a trust exempt from tax under section 501(a) if the plan meets—

“(A) the contribution requirements of paragraph (2),

“(B) the vesting requirements of paragraph (3), and

“(C) the distribution requirements of paragraph (4).

“(2) CONTRIBUTION REQUIREMENTS.—

“(A) IN GENERAL.—The requirements of this paragraph are met if, under the plan—

“(i) the employer is required to make nonelective contributions of at least 1 percent of compensation (or the equivalent thereof in the case of a defined benefit plan) for each employee who is not a highly compensated employee who is eligible to participate in the plan, and

“(ii) allocations of nonelective employer contributions, in the case of a defined contribution plan, are either in equal dollar amounts for all employees covered by the plan or bear a uniform relationship to the total compensation, or the basic or regular rate of compensation, of the employees covered by the plan (and an equivalent requirement is met with respect to a defined benefit plan).

“(B) COMPENSATION LIMITATION.—The compensation taken into account under subparagraph (A) for any year shall not exceed the limitation in effect for such year under section 401(a)(17).

“(3) VESTING REQUIREMENTS.—The requirements of this paragraph are met if the plan

satisfies the requirements of either of the following subparagraphs:

“(A) 3-YEAR VESTING.—A plan satisfies the requirements of this subparagraph if an employee who has completed at least 3 years of service has a nonforfeitable right to 100 percent of the employee's accrued benefit derived from employer contributions.

“(B) 5-YEAR GRADED VESTING.—A plan satisfies the requirements of this subparagraph if an employee has a nonforfeitable right to a percentage of the employee's accrued benefit derived from employer contributions determined under the following table:

“Years of service:	The nonforfeitable percentage is:
1 .....	20
2 .....	40
3 .....	60
4 .....	80
5 .....	100.

“(4) DISTRIBUTION REQUIREMENTS.—In the case of a profit-sharing or stock bonus plan, the requirements of this paragraph are met if, under the plan, qualified employer contributions are distributable only as provided in section 401(k)(2)(B).

“(e) OTHER DEFINITIONS.—For purposes of this section—

“(1) ELIGIBLE EMPLOYER.—

“(A) IN GENERAL.—The term ‘eligible employer’ means, with respect to any year, an employer which has no more than 20 employees who received at least \$5,000 of compensation from the employer for the preceding year.

“(B) REQUIREMENT FOR NEW QUALIFIED EMPLOYER PLANS.—Such term shall not include an employer if, during the 3-taxable year period immediately preceding the 1st taxable year for which the credit under this section is otherwise allowable for a qualified employer plan of the employer, the employer or any member of any controlled group including the employer (or any predecessor of either) established or maintained a qualified employer plan with respect to which contributions were made, or benefits were accrued, for substantially the same employees as are in the qualified employer plan.

“(2) HIGHLY COMPENSATED EMPLOYEE.—The term ‘highly compensated employee’ has the meaning given such term by section 414(q) (determined without regard to section 414(q)(1)(B)(ii)).

“(f) SPECIAL RULES.—

“(1) DISALLOWANCE OF DEDUCTION.—No deduction shall be allowed for that portion of the qualified employer contributions paid or incurred for the taxable year which is equal to the credit determined under subsection (a).

“(2) ELECTION NOT TO CLAIM CREDIT.—This section shall not apply to a taxpayer for any taxable year if such taxpayer elects to have this section not apply for such taxable year.

“(3) AGGREGATION RULES.—All persons treated as a single employer under subsection (a) or (b) of section 52, or subsection (n) or (o) of section 414, shall be treated as one person. All eligible employer plans shall be treated as 1 eligible employer plan.

“(g) RECAPTURE OF CREDIT ON FORFEITED CONTRIBUTIONS.—

“(1) IN GENERAL.—Except as provided in paragraph (2), if any accrued benefit which is forfeitable by reason of subsection (d)(3) is forfeited, the employer's tax imposed by this chapter for the taxable year in which the forfeiture occurs shall be increased by 35 percent of the employer contributions from which such benefit is derived to the extent such contributions were taken into account in determining the credit under this section.



“(2) REALLOCATED CONTRIBUTIONS.—Paragraph (1) shall not apply to any contribution which is reallocated by the employer under the plan to employees who are not highly compensated employees.”.

(b) CREDIT ALLOWED AS PART OF GENERAL BUSINESS CREDIT.—Section 38(b) (defining current year business credit) is amended by striking “plus” at the end of paragraph (12), by striking the period at the end of paragraph (13) and inserting “, plus”, and by adding at the end the following new paragraph:

“(14) in the case of an eligible employer (as defined in section 45E(e)), the small employer pension plan contribution credit determined under section 45E(a).”

(c) CONFORMING AMENDMENTS.—

(1) Section 39(d) is amended by adding at the end the following new paragraph:

“(10) NO CARRYBACK OF SMALL EMPLOYER PENSION PLAN CONTRIBUTION CREDIT BEFORE JANUARY 1, 2003.—No portion of the unused business credit for any taxable year which is attributable to the small employer pension plan contribution credit determined under section 45E may be carried back to a taxable year beginning before January 1, 2003.”

(2) Subsection (c) of section 196 is amended by striking “and” at the end of paragraph (8), by striking the period at the end of paragraph (9) and inserting “, and”, and by adding at the end the following new paragraph:

“(10) the small employer pension plan contribution credit determined under section 45E(a).”

(3) The table of sections for subpart D of part IV of subchapter A of chapter 1 is amended by adding at the end the following new item:

“Sec. 45E. Small employer pension plan contributions.”

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to contributions paid or incurred in taxable years beginning after December 31, 2002.

#### SEC. 620. CREDIT FOR PENSION PLAN STARTUP COSTS OF SMALL EMPLOYERS.

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits), as amended by section 619, is amended by adding at the end the following new section:

##### “SEC. 45F. SMALL EMPLOYER PENSION PLAN STARTUP COSTS.

“(a) GENERAL RULE.—For purposes of section 38, in the case of an eligible employer, the small employer pension plan startup cost credit determined under this section for any taxable year is an amount equal to 50 percent of the qualified startup costs paid or incurred by the taxpayer during the taxable year.

“(b) DOLLAR LIMITATION.—The amount of the credit determined under this section for any taxable year shall not exceed—

“(1) \$500 for the first credit year and each of the 2 taxable years immediately following the first credit year, and

“(2) zero for any other taxable year.

“(c) ELIGIBLE EMPLOYER.—For purposes of this section—

“(1) IN GENERAL.—The term ‘eligible employer’ has the meaning given such term by section 408(p)(2)(C)(i).

“(2) REQUIREMENT FOR NEW QUALIFIED EMPLOYER PLANS.—Such term shall not include an employer if, during the 3-taxable year period immediately preceding the 1st taxable year for which the credit under this section is otherwise allowable for a qualified employer plan of the employer, the employer or any member of any controlled group including the employer (or any predecessor of either) established or maintained a qualified

employer plan with respect to which contributions were made, or benefits were accrued, for substantially the same employees as are in the qualified employer plan.

“(d) OTHER DEFINITIONS.—For purposes of this section—

“(1) QUALIFIED STARTUP COSTS.—

“(A) IN GENERAL.—The term ‘qualified startup costs’ means any ordinary and necessary expenses of an eligible employer which are paid or incurred in connection with—

“(i) the establishment or administration of an eligible employer plan, or

“(ii) the retirement-related education of employees with respect to such plan.

“(B) PLAN MUST HAVE AT LEAST 1 PARTICIPANT.—Such term shall not include any expense in connection with a plan that does not have at least 1 employee eligible to participate who is not a highly compensated employee.

“(2) ELIGIBLE EMPLOYER PLAN.—The term ‘eligible employer plan’ means a qualified employer plan within the meaning of section 4972(d).

“(3) FIRST CREDIT YEAR.—The term ‘first credit year’ means—

“(A) the taxable year which includes the date that the eligible employer plan to which such costs relate becomes effective, or

“(B) at the election of the eligible employer, the taxable year preceding the taxable year referred to in subparagraph (A).

“(e) SPECIAL RULES.—For purposes of this section—

“(1) AGGREGATION RULES.—All persons treated as a single employer under subsection (a) or (b) of section 52, or subsection (n) or (o) of section 414, shall be treated as one person. All eligible employer plans shall be treated as 1 eligible employer plan.

“(2) DISALLOWANCE OF DEDUCTION.—No deduction shall be allowed for that portion of the qualified startup costs paid or incurred for the taxable year which is equal to the credit determined under subsection (a).

“(3) ELECTION NOT TO CLAIM CREDIT.—This section shall not apply to a taxpayer for any taxable year if such taxpayer elects to have this section not apply for such taxable year.”

(b) CREDIT ALLOWED AS PART OF GENERAL BUSINESS CREDIT.—Section 38(b) (defining current year business credit), as amended by section 619, is amended by striking “plus” at the end of paragraph (13), by striking the period at the end of paragraph (14) and inserting “, plus”, and by adding at the end the following new paragraph:

“(15) in the case of an eligible employer (as defined in section 45F(c)), the small employer pension plan startup cost credit determined under section 45F(a).”

(c) CONFORMING AMENDMENTS.—

(1) Section 39(d), as amended by section 619(c), is amended by adding at the end the following new paragraph:

“(11) NO CARRYBACK OF SMALL EMPLOYER PENSION PLAN STARTUP COST CREDIT BEFORE JANUARY 1, 2002.—No portion of the unused business credit for any taxable year which is attributable to the small employer pension plan startup cost credit determined under section 45F may be carried back to a taxable year beginning before January 1, 2002.”

(2) Subsection (c) of section 196, as amended by section 619(c), is amended by striking “and” at the end of paragraph (9), by striking the period at the end of paragraph (10) and inserting “, and”, and by adding at the end the following new paragraph:

“(11) the small employer pension plan startup cost credit determined under section 45F(a).”

(3) The table of sections for subpart D of part IV of subchapter A of chapter 1, as amended by section 619(c), is amended by adding at the end the following new item:

“Sec. 45F. Small employer pension plan startup costs.”

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to costs paid or incurred in taxable years beginning after December 31, 2001, with respect to qualified employer plans established after such date.

#### SEC. 621. ELIMINATION OF USER FEE FOR REQUESTS TO IRS REGARDING NEW PENSION PLANS.

(a) ELIMINATION OF CERTAIN USER FEES.—The Secretary of the Treasury or the Secretary's delegate shall not require payment of user fees under the program established under section 10511 of the Revenue Act of 1987 for requests to the Internal Revenue Service for ruling letters, opinion letters, and determination letters or similar requests with respect to the qualified status of a new pension benefit plan or any trust which is part of the plan.

(b) NEW PENSION BENEFIT PLAN.—For purposes of this section—

(1) IN GENERAL.—The term “new pension benefit plan” means a pension, profit-sharing, stock bonus, annuity, or employee stock ownership plan which is maintained by one or more eligible employers if such employer (or any predecessor employer) has not made a prior request described in subsection (a) for such plan (or any predecessor plan).

(2) ELIGIBLE EMPLOYER.—

(A) IN GENERAL.—The term “eligible employer” means an employer which has—

(i) no more than 100 employees for the preceding year, and

(ii) at least one employee who is not a highly compensated employee (as defined in section 414(q)) and is participating in the plan.

(B) NEW PLAN REQUIREMENT.—The term “eligible employer” shall not include an employer if, during the 3-taxable year period immediately preceding the taxable year in which the request is made, the employer or any member of any controlled group including the employer (or any predecessor of either) established or maintained a qualified employer plan with respect to which contributions were made, or benefits were accrued for service, for substantially the same employees as are in the qualified employer plan.

(c) DETERMINATION OF AVERAGE FEES CHARGED.—For purposes of any determination of average fees charged, any request to which subsection (a) applies shall not be taken into account.

(d) EFFECTIVE DATE.—The provisions of this section shall apply with respect to requests made after December 31, 2001.

#### SEC. 622. TREATMENT OF NONRESIDENT ALIENS ENGAGED IN INTERNATIONAL TRANSPORTATION SERVICES.

(a) EXCLUSION FROM INCOME SOURCING RULES.—The second sentence of section 861(a)(3) (relating to gross income from sources within the United States) is amended by striking “except for purposes of sections 79 and 105 and subchapter D.”.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to remuneration for services performed in plan years beginning after December 31, 2001.

#### Subtitle C—Enhancing Fairness for Women SEC. 631. CATCH-UP CONTRIBUTIONS FOR INDIVIDUALS AGE 50 OR OVER.

(a) IN GENERAL.—Section 414 (relating to definitions and special rules) is amended by

adding at the end the following new subsection:

“(v) CATCH-UP CONTRIBUTIONS FOR INDIVIDUALS AGE 50 OR OVER.—

“(1) IN GENERAL.—An applicable employer plan shall not be treated as failing to meet any requirement of this title solely because the plan permits an eligible participant to make additional elective deferrals in any plan year.

“(2) LIMITATION ON AMOUNT OF ADDITIONAL DEFERRALS.—

“(A) IN GENERAL.—A plan shall not permit additional elective deferrals under paragraph (1) for any year in an amount greater than the lesser of—

“(i) the applicable dollar amount, or

“(ii) the excess (if any) of—

“(I) the participant’s compensation (as defined in section 415(c)(3)) for the year, over

“(II) any other elective deferrals of the participant for such year which are made without regard to this subsection.

“(B) APPLICABLE DOLLAR AMOUNT.—For purposes of this paragraph, the applicable dollar amount shall be determined in accordance with the following table:

For taxable years beginning in:	The applicable dollar amount is:
2002, 2003, and 2004 .....	\$500
2005 and 2006 .....	\$1,000
2007 .....	\$2,000
2008 .....	\$3,000
2009 .....	\$4,000
2010 and thereafter .....	\$7,500.

“(3) TREATMENT OF CONTRIBUTIONS.—In the case of any contribution to a plan under paragraph (1)—

“(A) such contribution shall not, with respect to the year in which the contribution is made—

“(i) be subject to any otherwise applicable limitation contained in section 402(g), 402(h), 403(b), 404(a), 404(h), 408(k), 408(p), 415, or 457, or

“(ii) be taken into account in applying such limitations to other contributions or benefits under such plan or any other such plan, and

“(B) such plan shall not be treated as failing to meet the requirements of section 401(a)(4), 401(a)(26), 401(k)(3), 401(k)(11), 401(k)(12), 401(m), 403(b)(12), 408(k), 408(p), 408B, 410(b), or 416 by reason of the making of (or the right to make) such contribution.

“(4) ELIGIBLE PARTICIPANT.—For purposes of this subsection, the term ‘eligible participant’ means, with respect to any plan year, a participant in a plan—

“(A) who has attained the age of 50 before the close of the plan year, and

“(B) with respect to whom no other elective deferrals may (without regard to this subsection) be made to the plan for the plan year by reason of the application of any limitation or other restriction described in paragraph (3) or comparable limitation or restriction contained in the terms of the plan.

“(5) OTHER DEFINITIONS AND RULES.—For purposes of this subsection—

“(A) APPLICABLE EMPLOYER PLAN.—The term ‘applicable employer plan’ means—

“(i) an employees’ trust described in section 401(a) which is exempt from tax under section 501(a),

“(ii) a plan under which amounts are contributed by an individual’s employer for an annuity contract described in section 403(b),

“(iii) an eligible deferred compensation plan under section 457 of an eligible employer described in section 457(e)(1)(A), and

“(iv) an arrangement meeting the requirements of section 408 (k) or (p).

“(B) ELECTIVE DEFERRAL.—The term ‘elective deferral’ has the meaning given such term by subsection (u)(2)(C).

“(C) EXCEPTION FOR SECTION 457 PLANS.—This subsection shall not apply to an applicable employer plan described in subparagraph (A)(iii) for any year to which section 457(b)(3) applies.”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to contributions in taxable years beginning after December 31, 2001.

#### SEC. 632. EQUITABLE TREATMENT FOR CONTRIBUTIONS OF EMPLOYEES TO DEFINED CONTRIBUTION PLANS.

(a) EQUITABLE TREATMENT.—

(1) IN GENERAL.—Subparagraph (B) of section 415(c)(1) (relating to limitation for defined contribution plans) is amended by striking “25 percent” and inserting “the applicable percentage”.

(2) APPLICABLE PERCENTAGE.—Section 415(c) is amended by adding at the end the following new paragraph:

“(8) APPLICABLE PERCENTAGE.—For purposes of paragraph (1)(B), the applicable percentage shall be determined in accordance with the following table:

For years beginning in:	The applicable percentage is:
2002 through 2010 .....	50
2011 and thereafter .....	100

(3) APPLICATION TO SECTION 403(b).—Section 403(b) is amended—

(A) by striking “the exclusion allowance for such taxable year” in paragraph (1) and inserting “the applicable limit under section 415”,

(B) by striking paragraph (2), and

(C) by inserting “or any amount received by a former employee after the fifth taxable year following the taxable year in which such employee was terminated” before the period at the end of the second sentence of paragraph (3).

(4) CONFORMING AMENDMENTS.—

(A) Subsection (f) of section 72 is amended by striking “section 403(b)(2)(D)(iii)” and inserting “section 403(b)(2)(D)(iii), as in effect before the enactment of the Restoring Earnings to Lift Individuals and Empower Families Act of 2001”.

(B) Section 404(a)(10)(B) is amended by striking “, the exclusion allowance under section 403(b)(2).”.

(C) Section 415(a)(2) is amended by striking “, and the amount of the contribution for such portion shall reduce the exclusion allowance as provided in section 403(b)(2)”.

(D) Section 415(c)(3) is amended by adding at the end the following new subparagraph:

“(E) ANNUITY CONTRACTS.—In the case of an annuity contract described in section 403(b), the term ‘participant’s compensation’ means the participant’s includible compensation determined under section 403(b)(3).”.

(E) Section 415(c) is amended by striking paragraph (4).

(F) Section 415(c)(7) is amended to read as follows:

“(7) CERTAIN CONTRIBUTIONS BY CHURCH PLANS NOT TREATED AS EXCEEDING LIMIT.—

“(A) IN GENERAL.—Notwithstanding any other provision of this subsection, at the election of a participant who is an employee of a church or a convention or association of churches, including an organization described in section 414(e)(3)(B)(ii), contributions and other additions for an annuity contract or retirement income account described in section 403(b) with respect to such participant, when expressed as an annual addition to such participant’s account, shall be

treated as not exceeding the limitation of paragraph (1) if such annual addition is not in excess of \$10,000.

“(B) \$40,000 AGGREGATE LIMITATION.—The total amount of additions with respect to any participant which may be taken into account for purposes of this subparagraph for all years may not exceed \$40,000.

“(C) ANNUAL ADDITION.—For purposes of this paragraph, the term ‘annual addition’ has the meaning given such term by paragraph (2).”.

(G) Subparagraph (B) of section 402(g)(7) (as redesignated by section 611(c)(3)) is amended by inserting before the period at the end the following: “(as in effect before the enactment of the Restoring Earnings to Lift Individuals and Empower Families Act of 2001)”.

(H) Section 664(g) is amended—

(i) in paragraph (3)(E) by striking “limitations under section 415(c)” and inserting “applicable limitation under paragraph (7)”, and

(ii) by adding at the end the following new paragraph:

“(7) APPLICABLE LIMITATION.—

“(A) IN GENERAL.—For purposes of paragraph (3)(E), the applicable limitation under this paragraph with respect to a participant is an amount equal to the lesser of—

“(i) \$30,000, or

“(ii) 25 percent of the participant’s compensation (as defined in section 415(c)(3)).

“(B) COST-OF-LIVING ADJUSTMENT.—The Secretary shall adjust annually the \$30,000 amount under subparagraph (A)(i) at the same time and in the same manner as under section 415(d), except that the base period shall be the calendar quarter beginning October 1, 1993, and any increase under this subparagraph which is not a multiple of \$5,000 shall be rounded to the next lowest multiple of \$5,000.”.

(5) EFFECTIVE DATE.—

(A) Except as provided in subparagraph (B), the amendments made by this subsection shall apply to years beginning after December 31, 2001.

(B) The amendments made by paragraphs (3) and (4) shall apply to years beginning after December 31, 2010.

(b) SPECIAL RULES FOR SECTIONS 403(b) AND 408.—

(1) IN GENERAL.—Subsection (k) of section 415 is amended by adding at the end the following new paragraph:

“(4) SPECIAL RULES FOR SECTIONS 403(b) AND 408.—For purposes of this section, any annuity contract described in section 403(b) for the benefit of a participant shall be treated as a defined contribution plan maintained by each employer with respect to which the participant has the control required under subsection (b) or (c) of section 414 (as modified by subsection (h)). For purposes of this section, any contribution by an employer to a simplified employee pension plan for an individual for a taxable year shall be treated as an employer contribution to a defined contribution plan for such individual for such year.”.

(2) EFFECTIVE DATE.—

(A) IN GENERAL.—The amendment made by paragraph (1) shall apply to limitation years beginning after December 31, 2000.

(B) EXCLUSION ALLOWANCE.—Effective for limitation years beginning in 2001, in the case of any annuity contract described in section 403(b) of the Internal Revenue Code of 1986, the amount of the contribution disallowed by reason of section 415(g) of such Code shall reduce the exclusion allowance as provided in section 403(b)(2) of such Code.

(3) MODIFICATION OF 403(b) EXCLUSION ALLOWANCE TO CONFORM TO 415 MODIFICATION.—

The Secretary of the Treasury shall modify the regulations regarding the exclusion allowance under section 403(b)(2) of the Internal Revenue Code of 1986 to render void the requirement that contributions to a defined benefit pension plan be treated as previously excluded amounts for purposes of the exclusion allowance. For taxable years beginning after December 31, 2000, such regulations shall be applied as if such requirement were void.

(c) DEFERRED COMPENSATION PLANS OF STATE AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANIZATIONS.—

(1) IN GENERAL.—Subparagraph (B) of section 457(b)(2) (relating to salary limitation on eligible deferred compensation plans) is amended by striking “33½ percent” and inserting “the applicable percentage”.

(2) APPLICABLE PERCENTAGE.—Section 457 is amended by adding at the end the following new subsection:

“(h) APPLICABLE PERCENTAGE.—For purposes of subsection (b)(2)(A), the applicable percentage shall be determined in accordance with the following table:

“For years beginning in:	The applicable percentage is:
2002 through 2010 .....	50
2011 and thereafter .....	100

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to years beginning after December 31, 2001.

#### SEC. 633. FASTER VESTING OF CERTAIN EMPLOYER MATCHING CONTRIBUTIONS.

(a) IN GENERAL.—Section 411(a) (relating to minimum vesting standards) is amended—

(1) in paragraph (2), by striking “A plan” and inserting “Except as provided in paragraph (12), a plan”; and

(2) by adding at the end the following:

“(12) FASTER VESTING FOR MATCHING CONTRIBUTIONS.—In the case of matching contributions (as defined in section 401(m)(4)(A)), paragraph (2) shall be applied—

“(A) by substituting ‘3 years’ for ‘5 years’ in subparagraph (A), and

“(B) by substituting the following table for the table contained in subparagraph (B):

“Years of service:	The nonforfeitable percentage is:
2 .....	20
3 .....	40
4 .....	60
5 .....	80
6 .....	100.”.

(b) AMENDMENT OF ERISA.—Section 203(a) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1053(a)) is amended—

(1) in paragraph (2), by striking “A plan” and inserting “Except as provided in paragraph (4), a plan”, and

(2) by adding at the end the following:

“(4) In the case of matching contributions (as defined in section 401(m)(4)(A) of the Internal Revenue Code of 1986), paragraph (2) shall be applied—

“(A) by substituting ‘3 years’ for ‘5 years’ in subparagraph (A), and

“(B) by substituting the following table for the table contained in subparagraph (B):

“Years of service:	The nonforfeitable percentage is:
2 .....	20
3 .....	40
4 .....	60
5 .....	80
6 .....	100.”.

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this

section shall apply to contributions for plan years beginning after December 31, 2001.

(2) COLLECTIVE BARGAINING AGREEMENTS.—In the case of a plan maintained pursuant to one or more collective bargaining agreements between employee representatives and one or more employers ratified by the date of the enactment of this Act, the amendments made by this section shall not apply to contributions on behalf of employees covered by any such agreement for plan years beginning before the earlier of—

(A) the later of—

(i) the date on which the last of such collective bargaining agreements terminates (determined without regard to any extension thereof on or after such date of the enactment); or

(ii) January 1, 2002; or

(B) January 1, 2006.

(3) SERVICE REQUIRED.—With respect to any plan, the amendments made by this section shall not apply to any employee before the date that such employee has 1 hour of service under such plan in any plan year to which the amendments made by this section apply.

#### SEC. 634. MODIFICATIONS TO MINIMUM DISTRIBUTION RULES.

(a) LIFE EXPECTANCY TABLES.—The Secretary of the Treasury shall modify the life expectancy tables under the regulations relating to minimum distribution requirements under sections 401(a)(9), 408(a)(6) and (b)(3), 403(b)(10), and 457(d)(2) of the Internal Revenue Code to reflect current life expectancy.

(b) REPEAL OF RULE WHERE DISTRIBUTIONS HAD BEGUN BEFORE DEATH OCCURS.—

(1) IN GENERAL.—Subparagraph (B) of section 401(a)(9) is amended by striking clause (i) and redesignating clauses (ii), (iii), and (iv) as clauses (i), (ii), and (iii), respectively.

(2) CONFORMING CHANGES.—

(A) Clause (i) of section 401(a)(9)(B) (as so redesignated) is amended—

(i) by striking “FOR OTHER CASES” in the heading; and

(ii) by striking “the distribution of the employee’s interest has begun in accordance with subparagraph (A)(ii)” and inserting “his entire interest has been distributed to him”.

(B) Clause (ii) of section 401(a)(9)(B) (as so redesignated) is amended by striking “clause (ii)” and inserting “clause (i)”.

(C) Clause (iii) of section 401(a)(9)(B) (as so redesignated) is amended—

(i) by striking “clause (iii)(I)” and inserting “clause (ii)(I)”;

(ii) by striking “clause (iii)(III)” in subclause (I) and inserting “clause (ii)(III)”;

(iii) by striking “the date on which the employee would have attained age 70½,” in subclause (I) and inserting “April 1 of the calendar year following the calendar year in which the spouse attains 70½.”; and

(iv) by striking “the distributions to such spouse begin,” in subclause (II) and inserting “his entire interest has been distributed to him.”.

(3) EFFECTIVE DATE.—

(A) IN GENERAL.—Except as provided in subparagraph (B), the amendments made by this subsection shall apply to years beginning after December 31, 2001.

(B) DISTRIBUTIONS TO SURVIVING SPOUSE.—

(i) IN GENERAL.—In the case of an employee described in clause (ii), distributions to the surviving spouse of the employee shall not be required to commence prior to the date on which such distributions would have been required to begin under section 401(a)(9)(B) of the Internal Revenue Code of 1986 (as in effect on the day before the date of the enactment of this Act).

(ii) CERTAIN EMPLOYEES.—An employee is described in this clause if such employee dies before—

(I) the date of the enactment of this Act, and

(II) the required beginning date (within the meaning of section 401(a)(9)(C) of the Internal Revenue Code of 1986) of the employee.

#### SEC. 635. CLARIFICATION OF TAX TREATMENT OF DIVISION OF SECTION 457 PLAN BENEFITS UPON DIVORCE.

(a) IN GENERAL.—Section 414(p)(11) (relating to application of rules to governmental and church plans) is amended—

(1) by inserting “or an eligible deferred compensation plan (within the meaning of section 457(b))” after “subsection (e))”; and

(2) in the heading, by striking “GOVERNMENTAL AND CHURCH PLANS” and inserting “CERTAIN OTHER PLANS”.

(b) WAIVER OF CERTAIN DISTRIBUTION REQUIREMENTS.—Paragraph (10) of section 414(p) is amended by striking “and section 409(d)” and inserting “section 409(d), and section 457(d)”.

(c) TAX TREATMENT OF PAYMENTS FROM A SECTION 457 PLAN.—Subsection (p) of section 414 is amended by redesignating paragraph (12) as paragraph (13) and inserting after paragraph (11) the following new paragraph:

“(12) TAX TREATMENT OF PAYMENTS FROM A SECTION 457 PLAN.—If a distribution or payment from an eligible deferred compensation plan described in section 457(b) is made pursuant to a qualified domestic relations order, rules similar to the rules of section 402(e)(1)(A) shall apply to such distribution or payment.”.

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendment made by subsection (c) shall apply to transfers, distributions, and payments made after December 31, 2001.

(2) AMENDMENTS RELATING TO ASSIGNMENTS IN DIVORCE, ETC., PROCEEDINGS.—The amendments made by subsections (a) and (b) shall take effect on January 1, 2002, except that in the case of a domestic relations order entered before such date, the plan administrator—

(A) shall treat such order as a qualified domestic relations order if such administrator is paying benefits pursuant to such order on such date, and

(B) may treat any other such order entered before such date as a qualified domestic relations order even if such order does not meet the requirements of such amendments.

#### SEC. 636. PROVISIONS RELATING TO HARDSHIP DISTRIBUTIONS.

(a) SAFE HARBOR RELIEF.—

(1) IN GENERAL.—The Secretary of the Treasury shall revise the regulations relating to hardship distributions under section 401(k)(2)(B)(i)(IV) of the Internal Revenue Code of 1986 to provide that the period an employee is prohibited from making elective and employee contributions in order for a distribution to be deemed necessary to satisfy financial need shall be equal to 6 months.

(2) EFFECTIVE DATE.—The revised regulations under this subsection shall apply to years beginning after December 31, 2001.

(b) HARDSHIP DISTRIBUTIONS NOT TREATED AS ELIGIBLE ROLLOVER DISTRIBUTIONS.—

(1) MODIFICATION OF DEFINITION OF ELIGIBLE ROLLOVER.—Subparagraph (C) of section 402(c)(4) (relating to eligible rollover distribution) is amended to read as follows:

“(C) any distribution which is made upon hardship of the employee.”.

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to distributions made after December 31, 2001.

**SEC. 637. WAIVER OF TAX ON NONDEDUCTIBLE CONTRIBUTIONS FOR DOMESTIC OR SIMILAR WORKERS.**

(a) IN GENERAL.—Section 4972(c)(6) (relating to exceptions to nondeductible contributions), as amended by section 502, is amended by striking “or” at the end of subparagraph (A), by striking the period and inserting “, or” at the end of subparagraph (B), and by inserting after subparagraph (B) the following new subparagraph:

“(C) so much of the contributions to a simple retirement account (within the meaning of section 408(p)) or a simple plan (within the meaning of section 401(k)(11)) which are not deductible when contributed solely because such contributions are not made in connection with a trade or business of the employer.”

(b) EXCLUSION OF CERTAIN CONTRIBUTIONS.—Section 4972(c)(6), as amended by subsection (a), is amended by adding at the end the following new sentence: “Subparagraph (C) shall not apply to contributions made on behalf of the employer or a member of the employer’s family (as defined in section 447(e)(1)).”

(c) NO INFERENCE.—Nothing in the amendments made by this section shall be construed to infer the proper treatment of nondeductible contributions under the laws in effect before such amendments.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

**Subtitle D—Increasing Portability for Participants****SEC. 641. ROLLOVERS ALLOWED AMONG VARIOUS TYPES OF PLANS.**

(a) ROLLOVERS FROM AND TO SECTION 457 PLANS.—

(1) ROLLOVERS FROM SECTION 457 PLANS.—

(A) IN GENERAL.—Section 457(e) (relating to other definitions and special rules) is amended by adding at the end the following:

“(16) ROLLOVER AMOUNTS.—

“(A) GENERAL RULE.—In the case of an eligible deferred compensation plan established and maintained by an employer described in subsection (e)(1)(A), if—

“(i) any portion of the balance to the credit of an employee in such plan is paid to such employee in an eligible rollover distribution (within the meaning of section 402(c)(4) without regard to subparagraph (C) thereof),

“(ii) the employee transfers any portion of the property such employee receives in such distribution to an eligible retirement plan described in section 402(c)(8)(B), and

“(iii) in the case of a distribution of property other than money, the amount so transferred consists of the property distributed, then such distribution (to the extent so transferred) shall not be includible in gross income for the taxable year in which paid.

“(B) CERTAIN RULES MADE APPLICABLE.—The rules of paragraphs (2) through (7) and (9) of section 402(c) and section 402(f) shall apply for purposes of subparagraph (A).

“(C) REPORTING.—Rollovers under this paragraph shall be reported to the Secretary in the same manner as rollovers from qualified retirement plans (as defined in section 4974(c)).”

(B) DEFERRAL LIMIT DETERMINED WITHOUT REGARD TO ROLLOVER AMOUNTS.—Section 457(b)(2) (defining eligible deferred compensation plan) is amended by inserting “(other than rollover amounts)” after “taxable year”.

(C) DIRECT ROLLOVER.—Paragraph (1) of section 457(d) is amended by striking “and” at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and

inserting “, and”, and by inserting after subparagraph (B) the following:

“(C) in the case of a plan maintained by an employer described in subsection (e)(1)(A), the plan meets requirements similar to the requirements of section 401(a)(31).

Any amount transferred in a direct trustee-to-trustee transfer in accordance with section 401(a)(31) shall not be includible in gross income for the taxable year of transfer.”

(D) WITHHOLDING.—

(i) Paragraph (12) of section 3401(a) is amended by adding at the end the following:

“(E) under or to an eligible deferred compensation plan which, at the time of such payment, is a plan described in section 457(b) which is maintained by an eligible employer described in section 457(e)(1)(A), or”.

(ii) Paragraph (3) of section 3405(c) is amended to read as follows:

“(3) ELIGIBLE ROLLOVER DISTRIBUTION.—For purposes of this subsection, the term ‘eligible rollover distribution’ has the meaning given such term by section 402(f)(2)(A).”

(iii) LIABILITY FOR WITHHOLDING.—Subparagraph (B) of section 3405(d)(2) is amended by striking “or” at the end of clause (ii), by striking the period at the end of clause (iii) and inserting “, or”, and by adding at the end the following:

“(iv) section 457(b) and which is maintained by an eligible employer described in section 457(e)(1)(A).”

(2) ROLLOVERS TO SECTION 457 PLANS.—

(A) IN GENERAL.—Section 402(c)(8)(B) (defining eligible retirement plan) is amended by striking “and” at the end of clause (iii), by striking the period at the end of clause (iv) and inserting “, and”, and by inserting after clause (iv) the following new clause:

“(v) an eligible deferred compensation plan described in section 457(b) which is maintained by an eligible employer described in section 457(e)(1)(A).”

(B) SEPARATE ACCOUNTING.—Section 402(c) is amended by adding at the end the following new paragraph:

“(11) SEPARATE ACCOUNTING.—Unless a plan described in clause (v) of paragraph (8)(B) agrees to separately account for amounts rolled into such plan from eligible retirement plans not described in such clause, the plan described in such clause may not accept transfers or rollovers from such retirement plans.”

(C) 10 PERCENT ADDITIONAL TAX.—Subsection (t) of section 72 (relating to 10-percent additional tax on early distributions from qualified retirement plans) is amended by adding at the end the following new paragraph:

“(9) SPECIAL RULE FOR ROLLOVERS TO SECTION 457 PLANS.—For purposes of this subsection, a distribution from an eligible deferred compensation plan (as defined in section 457(b)) of an eligible employer described in section 457(e)(1)(A) shall be treated as a distribution from a qualified retirement plan described in 4974(c)(1) to the extent that such distribution is attributable to an amount transferred to an eligible deferred compensation plan from a qualified retirement plan (as defined in section 4974(c)).”

(b) ALLOWANCE OF ROLLOVERS FROM AND TO 403(b) PLANS.—

(1) ROLLOVERS FROM SECTION 403(b) PLANS.—Section 403(b)(8)(A)(ii) (relating to rollover amounts) is amended by striking “such distribution” and all that follows and inserting “such distribution to an eligible retirement plan described in section 402(c)(8)(B), and”.

(2) ROLLOVERS TO SECTION 403(b) PLANS.—Section 402(c)(8)(B) (defining eligible retirement plan), as amended by subsection (a), is

amended by striking “and” at the end of clause (iv), by striking the period at the end of clause (v) and inserting “, and”, and by inserting after clause (v) the following new clause:

“(vi) an annuity contract described in section 403(b).”

(c) EXPANDED EXPLANATION TO RECIPIENTS OF ROLLOVER DISTRIBUTIONS.—Paragraph (1) of section 402(f) (relating to written explanation to recipients of distributions eligible for rollover treatment) is amended by striking “and” at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting “, and”, and by adding at the end the following new subparagraph:

“(E) of the provisions under which distributions from the eligible retirement plan receiving the distribution may be subject to restrictions and tax consequences which are different from those applicable to distributions from the plan making such distribution.”

(d) SPOUSAL ROLLOVERS.—Section 402(c)(9) (relating to rollover where spouse receives distribution after death of employee) is amended by striking “; except that” and all that follows up to the end of the paragraph.

(e) CONFORMING AMENDMENTS.—

(1) Section 72(o)(4) is amended by striking “and 408(d)(3)” and inserting “403(b)(8), 408(d)(3), and 457(e)(16)”.

(2) Section 219(d)(2) is amended by striking “or 408(d)(3)” and inserting “408(d)(3), or 457(e)(16)”.

(3) Section 401(a)(31)(B) is amended by striking “and 403(a)(4)” and inserting “, 403(a)(4), 403(b)(8), and 457(e)(16)”.

(4) Subparagraph (A) of section 402(f)(2) is amended by striking “or paragraph (4) of section 403(a)” and inserting “, paragraph (4) of section 403(a), subparagraph (A) of section 403(b)(8), or subparagraph (A) of section 457(e)(16)”.

(5) Paragraph (1) of section 402(f) is amended by striking “from an eligible retirement plan”.

(6) Subparagraphs (A) and (B) of section 402(f)(1) are amended by striking “another eligible retirement plan” and inserting “an eligible retirement plan”.

(7) Subparagraph (B) of section 403(b)(8) is amended to read as follows:

“(B) CERTAIN RULES MADE APPLICABLE.—The rules of paragraphs (2) through (7) and (9) of section 402(c) and section 402(f) shall apply for purposes of subparagraph (A), except that section 402(f) shall be applied to the payor in lieu of the plan administrator.”

(8) Section 408(a)(1) is amended by striking “or 403(b)(8),” and inserting “403(b)(8), or 457(e)(16)”.

(9) Subparagraphs (A) and (B) of section 415(b)(2) are each amended by striking “and 408(d)(3)” and inserting “403(b)(8), 408(d)(3), and 457(e)(16)”.

(10) Section 415(c)(2) is amended by striking “and 408(d)(3)” and inserting “408(d)(3), and 457(e)(16)”.

(11) Section 4973(b)(1)(A) is amended by striking “or 408(d)(3)” and inserting “408(d)(3), or 457(e)(16)”.

(f) EFFECTIVE DATE; SPECIAL RULE.—

(1) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions after December 31, 2001.

(2) SPECIAL RULE.—Notwithstanding any other provision of law, subsections (h)(3) and (h)(5) of section 1122 of the Tax Reform Act of 1986 shall not apply to any distribution from an eligible retirement plan (as defined in clause (iii) or (iv) of section 402(c)(8)(B) of the Internal Revenue Code of 1986) on behalf

of an individual if there was a rollover to such plan on behalf of such individual which is permitted solely by reason of any amendment made by this section.

**SEC. 642. ROLLOVERS OF IRAS INTO WORKPLACE RETIREMENT PLANS.**

(a) **IN GENERAL.**—Subparagraph (A) of section 408(d)(3) (relating to rollover amounts) is amended by adding “or” at the end of clause (i), by striking clauses (ii) and (iii), and by adding at the end the following:

“(ii) the entire amount received (including money and any other property) is paid into an eligible retirement plan for the benefit of such individual not later than the 60th day after the date on which the payment or distribution is received, except that the maximum amount which may be paid into such plan may not exceed the portion of the amount received which is includible in gross income (determined without regard to this paragraph).

For purposes of clause (ii), the term ‘eligible retirement plan’ means an eligible retirement plan described in clause (iii), (iv), (v), or (vi) of section 402(c)(8)(B).”

(b) **CONFORMING AMENDMENTS.**—

(1) Paragraph (1) of section 403(b) is amended by striking “section 408(d)(3)(A)(iii)” and inserting “section 408(d)(3)(A)(ii)”.

(2) Clause (i) of section 408(d)(3)(D) is amended by striking “(i), (ii), or (iii)” and inserting “(i) or (ii)”.

(3) Subparagraph (G) of section 408(d)(3) is amended to read as follows:

“(G) **SIMPLE RETIREMENT ACCOUNTS.**—In the case of any payment or distribution out of a simple retirement account (as defined in subsection (p)) to which section 72(t)(6) applies, this paragraph shall not apply unless such payment or distribution is paid into another simple retirement account.”

(c) **EFFECTIVE DATE; SPECIAL RULE.**—

(1) **EFFECTIVE DATE.**—The amendments made by this section shall apply to distributions after December 31, 2001.

(2) **SPECIAL RULE.**—Notwithstanding any other provision of law, subsections (h)(3) and (h)(5) of section 1122 of the Tax Reform Act of 1986 shall not apply to any distribution from an eligible retirement plan (as defined in clause (iii) or (iv) of section 402(c)(8)(B) of the Internal Revenue Code of 1986) on behalf of an individual if there was a rollover to such plan on behalf of such individual which is permitted solely by reason of the amendments made by this section.

**SEC. 643. ROLLOVERS OF AFTER-TAX CONTRIBUTIONS.**

(a) **ROLLOVERS FROM EXEMPT TRUSTS.**—Paragraph (2) of section 402(c) (relating to maximum amount which may be rolled over) is amended by adding at the end the following: “The preceding sentence shall not apply to such distribution to the extent—

“(A) such portion is transferred in a direct trustee-to-trustee transfer to a qualified trust which is part of a plan which is a defined contribution plan and which agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible, or

“(B) such portion is transferred to an eligible retirement plan described in clause (i) or (ii) of paragraph (8)(B).”

(b) **OPTIONAL DIRECT TRANSFER OF ELIGIBLE ROLLOVER DISTRIBUTIONS.**—Subparagraph (B) of section 401(a)(31) (relating to limitation) is amended by adding at the end the following: “The preceding sentence shall not apply to such distribution if the plan to which such distribution is transferred—

“(i) agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible, or

“(ii) is an eligible retirement plan described in clause (i) or (ii) of section 402(c)(8)(B).”

(c) **RULES FOR APPLYING SECTION 72 TO IRAS.**—Paragraph (3) of section 408(d) (relating to special rules for applying section 72) is amended by inserting at the end the following:

“(H) **APPLICATION OF SECTION 72.**—

“(i) **IN GENERAL.**—If—

“(I) a distribution is made from an individual retirement plan, and

“(II) a rollover contribution is made to an eligible retirement plan described in section 402(c)(8)(B)(iii), (iv), (v), or (vi) with respect to all or part of such distribution, then, notwithstanding paragraph (2), the rules of clause (ii) shall apply for purposes of applying section 72.

“(ii) **APPLICABLE RULES.**—In the case of a distribution described in clause (i)—

“(I) section 72 shall be applied separately to such distribution,

“(II) notwithstanding the pro rata allocation of income on, and investment in, the contract to distributions under section 72, the portion of such distribution rolled over to an eligible retirement plan described in clause (i) shall be treated as from income on the contract (to the extent of the aggregate income on the contract from all individual retirement plans of the distributee), and

“(III) appropriate adjustments shall be made in applying section 72 to other distributions in such taxable year and subsequent taxable years.”

(d) **EFFECTIVE DATE.**—The amendments made by this section shall apply to distributions made after December 31, 2001.

**SEC. 644. HARDSHIP EXCEPTION TO 60-DAY RULE.**

(a) **EXEMPT TRUSTS.**—Paragraph (3) of section 402(c) (relating to transfer must be made within 60 days of receipt) is amended to read as follows:

“(3) **TRANSFER MUST BE MADE WITHIN 60 DAYS OF RECEIPT.**—

“(A) **IN GENERAL.**—Except as provided in subparagraph (B), paragraph (1) shall not apply to any transfer of a distribution made after the 60th day following the day on which the distributee received the property distributed.

“(B) **HARDSHIP EXCEPTION.**—The Secretary may waive the 60-day requirement under subparagraph (A) where the failure to waive such requirement would be against equity or good conscience, including casualty, disaster, or other events beyond the reasonable control of the individual subject to such requirement.”

(b) **IRAS.**—Paragraph (3) of section 408(d) (relating to rollover contributions), as amended by section 643, is amended by adding after subparagraph (H) the following new subparagraph:

“(I) **WAIVER OF 60-DAY REQUIREMENT.**—The Secretary may waive the 60-day requirement under subparagraphs (A) and (D) where the failure to waive such requirement would be against equity or good conscience, including casualty, disaster, or other events beyond the reasonable control of the individual subject to such requirement.”

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to distributions after December 31, 2001.

**SEC. 645. TREATMENT OF FORMS OF DISTRIBUTION.**

(a) **PLAN TRANSFERS.**—

(1) **AMENDMENT OF INTERNAL REVENUE CODE.**—Paragraph (6) of section 411(d) (relating to accrued benefit not to be decreased by amendment) is amended by adding at the end the following:

“(D) **PLAN TRANSFERS.**—

“(i) **IN GENERAL.**—A defined contribution plan (in this subparagraph referred to as the ‘transferee plan’) shall not be treated as failing to meet the requirements of this subsection merely because the transferee plan does not provide some or all of the forms of distribution previously available under another defined contribution plan (in this subparagraph referred to as the ‘transferor plan’) to the extent that—

“(I) the forms of distribution previously available under the transferor plan applied to the account of a participant or beneficiary under the transferor plan that was transferred from the transferor plan to the transferee plan pursuant to a direct transfer rather than pursuant to a distribution from the transferor plan,

“(II) the terms of both the transferor plan and the transferee plan authorize the transfer described in subclause (I),

“(III) the transfer described in subclause (I) was made pursuant to a voluntary election by the participant or beneficiary whose account was transferred to the transferee plan,

“(IV) the election described in subclause (III) was made after the participant or beneficiary received a notice describing the consequences of making the election, and

“(V) the transferee plan allows the participant or beneficiary described in subclause (III) to receive any distribution to which the participant or beneficiary is entitled under the transferee plan in the form of a single sum distribution.

“(ii) **SPECIAL RULE FOR MERGERS, ETC.**—Clause (i) shall apply to plan mergers and other transactions having the effect of a direct transfer, including consolidations of benefits attributable to different employers within a multiple employer plan.”

(2) **AMENDMENT OF ERISA.**—Section 204(g) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1054(g)) is amended by adding at the end the following:

“(4)(A) A defined contribution plan (in this subparagraph referred to as the ‘transferee plan’) shall not be treated as failing to meet the requirements of this subsection merely because the transferee plan does not provide some or all of the forms of distribution previously available under another defined contribution plan (in this subparagraph referred to as the ‘transferor plan’) to the extent that—

“(i) the forms of distribution previously available under the transferor plan applied to the account of a participant or beneficiary under the transferor plan that was transferred from the transferor plan to the transferee plan pursuant to a direct transfer rather than pursuant to a distribution from the transferor plan;

“(ii) the terms of both the transferor plan and the transferee plan authorize the transfer described in clause (i);

“(iii) the transfer described in clause (i) was made pursuant to a voluntary election by the participant or beneficiary whose account was transferred to the transferee plan;

“(iv) the election described in clause (iii) was made after the participant or beneficiary received a notice describing the consequences of making the election; and

“(v) the transferee plan allows the participant or beneficiary described in clause (iii) to receive any distribution to which the participant or beneficiary is entitled under the

transferee plan in the form of a single sum distribution.

“(B) Subparagraph (A) shall apply to plan mergers and other transactions having the effect of a direct transfer, including consolidations of benefits attributable to different employers within a multiple employer plan.”

(3) **EFFECTIVE DATE.**—The amendments made by this subsection shall apply to years beginning after December 31, 2001.

(b) **REGULATIONS.**—

(1) **AMENDMENT OF INTERNAL REVENUE CODE.**—The last sentence of paragraph (6)(B) of section 411(d) (relating to accrued benefit not to be decreased by amendment) is amended to read as follows: “The Secretary shall by regulations provide that this subparagraph shall not apply to any plan amendment which reduces or eliminates benefits or subsidies which create significant burdens or complexities for the plan and plan participants, unless such amendment adversely affects the rights of any participant in a more than de minimis manner.”

(2) **AMENDMENT OF ERISA.**—The last sentence of section 204(g)(2) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1054(g)(2)) is amended to read as follows: “The Secretary of the Treasury shall by regulations provide that this paragraph shall not apply to any plan amendment which reduces or eliminates benefits or subsidies which create significant burdens or complexities for the plan and plan participants, unless such amendment adversely affects the rights of any participant in a more than de minimis manner.”

(3) **SECRETARY DIRECTED.**—Not later than December 31, 2002, the Secretary of the Treasury is directed to issue regulations under section 411(d)(6) of the Internal Revenue Code of 1986 and section 204(g) of the Employee Retirement Income Security Act of 1974, including the regulations required by the amendment made by this subsection. Such regulations shall apply to plan years beginning after December 31, 2002, or such earlier date as is specified by the Secretary of the Treasury.

**SEC. 646. RATIONALIZATION OF RESTRICTIONS ON DISTRIBUTIONS.**

(a) **MODIFICATION OF SAME DESK EXCEPTION.**—

(1) **SECTION 401(k).**—

(A) Section 401(k)(2)(B)(i)(I) (relating to qualified cash or deferred arrangements) is amended by striking “separation from service” and inserting “severance from employment”.

(B) Subparagraph (A) of section 401(k)(10) (relating to distributions upon termination of plan or disposition of assets or subsidiary) is amended to read as follows:

“(A) **IN GENERAL.**—An event described in this subparagraph is the termination of the plan without establishment or maintenance of another defined contribution plan (other than an employee stock ownership plan as defined in section 4975(e)(7)).”

(C) Section 401(k)(10) is amended—

(i) in subparagraph (B)—

(I) by striking “An event” in clause (i) and inserting “A termination”; and

(II) by striking “the event” in clause (i) and inserting “the termination”;

(ii) by striking subparagraph (C); and

(iii) by striking “OR DISPOSITION OF ASSETS OR SUBSIDIARY” in the heading.

(2) **SECTION 403(b).**—

(A) Paragraphs (7)(A)(ii) and (11)(A) of section 403(b) are each amended by striking “separates from service” and inserting “has a severance from employment”.

(B) The heading for paragraph (11) of section 403(b) is amended by striking “SEPARATION FROM SERVICE” and inserting “SEVERANCE FROM EMPLOYMENT”.

(3) **SECTION 457.**—Clause (ii) of section 457(d)(1)(A) is amended by striking “is separated from service” and inserting “has a severance from employment”.

(b) **EFFECTIVE DATE.**—The amendments made by this section shall apply to distributions after December 31, 2001.

**SEC. 647. PURCHASE OF SERVICE CREDIT IN GOVERNMENTAL DEFINED BENEFIT PLANS.**

(a) **403(b) PLANS.**—Subsection (b) of section 403 is amended by adding at the end the following new paragraph:

“(13) **TRUSTEE-TO-TRUSTEE TRANSFERS TO PURCHASE PERMISSIVE SERVICE CREDIT.**—No amount shall be includible in gross income by reason of a direct trustee-to-trustee transfer to a defined benefit governmental plan (as defined in section 414(d)) if such transfer is—

“(A) for the purchase of permissive service credit (as defined in section 415(n)(3)(A)) under such plan, or

“(B) a repayment to which section 415 does not apply by reason of subsection (k)(3) thereof.”

(b) **457 PLANS.**—Subsection (e) of section 457, as amended by section 401, is amended by adding after paragraph (16) the following new paragraph:

“(17) **TRUSTEE-TO-TRUSTEE TRANSFERS TO PURCHASE PERMISSIVE SERVICE CREDIT.**—No amount shall be includible in gross income by reason of a direct trustee-to-trustee transfer to a defined benefit governmental plan (as defined in section 414(d)) if such transfer is—

“(A) for the purchase of permissive service credit (as defined in section 415(n)(3)(A)) under such plan, or

“(B) a repayment to which section 415 does not apply by reason of subsection (k)(3) thereof.”

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to trustee-to-trustee transfers after December 31, 2001.

**SEC. 648. EMPLOYERS MAY DISREGARD ROLLOVERS FOR PURPOSES OF CASH-OUT AMOUNTS.**

(a) **QUALIFIED PLANS.**—

(1) **AMENDMENT OF INTERNAL REVENUE CODE.**—Section 411(a)(11) (relating to restrictions on certain mandatory distributions) is amended by adding at the end the following:

“(D) **SPECIAL RULE FOR ROLLOVER CONTRIBUTIONS.**—A plan shall not fail to meet the requirements of this paragraph if, under the terms of the plan, the present value of the nonforfeitable accrued benefit is determined without regard to that portion of such benefit which is attributable to rollover contributions (and earnings allocable thereto). For purposes of this subparagraph, the term ‘rollover contributions’ means any rollover contribution under sections 402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii), and 457(e)(16).”

(2) **AMENDMENT OF ERISA.**—Section 203(e) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1053(c)) is amended by adding at the end the following:

“(4) A plan shall not fail to meet the requirements of this subsection if, under the terms of the plan, the present value of the nonforfeitable accrued benefit is determined without regard to that portion of such benefit which is attributable to rollover contributions (and earnings allocable thereto). For purposes of this subparagraph, the term ‘rollover contributions’ means any rollover contribution under sections 402(c), 403(a)(4),

403(b)(8), 408(d)(3)(A)(ii), and 457(e)(16) of the Internal Revenue Code of 1986.”

(b) **ELIGIBLE DEFERRED COMPENSATION PLANS.**—Clause (i) of section 457(e)(9)(A) is amended by striking “such amount” and inserting “the portion of such amount which is not attributable to rollover contributions (as defined in section 411(a)(11)(D))”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to distributions after December 31, 2001.

**SEC. 649. MINIMUM DISTRIBUTION AND INCLUSION REQUIREMENTS FOR SECTION 457 PLANS.**

(a) **MINIMUM DISTRIBUTION REQUIREMENTS.**—Paragraph (2) of section 457(d) (relating to distribution requirements) is amended to read as follows:

“(2) **MINIMUM DISTRIBUTION REQUIREMENTS.**—A plan meets the minimum distribution requirements of this paragraph if such plan meets the requirements of section 401(a)(9).”

(b) **INCLUSION IN GROSS INCOME.**—

(1) **YEAR OF INCLUSION.**—Subsection (a) of section 457 (relating to year of inclusion in gross income) is amended to read as follows:

“(a) **YEAR OF INCLUSION IN GROSS INCOME.**—

“(1) **IN GENERAL.**—Any amount of compensation deferred under an eligible deferred compensation plan, and any income attributable to the amounts so deferred, shall be includible in gross income only for the taxable year in which such compensation or other income—

“(A) is paid to the participant or other beneficiary, in the case of a plan of an eligible employer described in subsection (e)(1)(A), and

“(B) is paid or otherwise made available to the participant or other beneficiary, in the case of a plan of an eligible employer described in subsection (e)(1)(B).

“(2) **SPECIAL RULE FOR ROLLOVER AMOUNTS.**—To the extent provided in section 72(t)(9), section 72(t) shall apply to any amount includible in gross income under this subsection.”

(2) **CONFORMING AMENDMENTS.**—

(A) So much of paragraph (9) of section 457(e) as precedes subparagraph (A) is amended to read as follows:

“(9) **BENEFITS OF TAX EXEMPT ORGANIZATION PLANS NOT TREATED AS MADE AVAILABLE BY REASON OF CERTAIN ELECTIONS, ETC.**—In the case of an eligible deferred compensation plan of an employer described in subsection (e)(1)(B)—”

(B) Section 457(d) is amended by adding at the end the following new paragraph:

“(3) **SPECIAL RULE FOR GOVERNMENT PLAN.**—An eligible deferred compensation plan of an employer described in subsection (e)(1)(A) shall not be treated as failing to meet the requirements of this subsection solely by reason of making a distribution described in subsection (e)(9)(A).”

(c) **MODIFICATION OF TRANSITION RULES FOR EXISTING 457 PLANS.**—

(1) **IN GENERAL.**—Section 1107(c)(3)(B) of the Tax Reform Act of 1986 is amended by striking “or” at the end of clause (i), by striking the period at the end of clause (ii) and inserting “, or” and by inserting after clause (ii) the following new clause:

“(iii) are deferred pursuant to an agreement with an individual covered by an agreement described in clause (ii), to the extent the annual amount under such agreement with the individual does not exceed—

“(I) the amount described in clause (ii)(II), multiplied by



“(II) the cumulative increase in the Consumer Price Index (as published by the Bureau of Labor Statistics of the Department of Labor).”.

(2) CONFORMING AMENDMENT.—The fourth sentence of section 1107(c)(3)(B) of the Tax Reform Act of 1986 is amended by striking “This subparagraph” and inserting “Clauses (i) and (ii) of this subparagraph”.

(3) EFFECTIVE DATE.—The amendments made by this subsection shall apply to taxable years ending after the date of the enactment of this Act with respect to increases in the Consumer Price Index after September 30, 1993.

(d) EFFECTIVE DATE.—The amendments made by subsections (a) and (b) shall apply to distributions after December 31, 2001.

#### Subtitle E—Strengthening Pension Security and Enforcement

#### PART I—GENERAL PROVISIONS

#### SEC. 651. REPEAL OF 160 PERCENT OF CURRENT LIABILITY FUNDING LIMIT.

(a) AMENDMENTS TO INTERNAL REVENUE CODE.—Section 412(c)(7) (relating to full-funding limitation) is amended—

(1) by striking “the applicable percentage” in subparagraph (A)(i)(I) and inserting “in the case of plan years beginning before January 1, 2005, the applicable percentage”; and

(2) by amending subparagraph (F) to read as follows:

“(F) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A)(i)(I), the applicable percentage shall be determined in accordance with the following table:

In the case of any plan year beginning in—	The applicable percentage is—
2002 .....	160
2003 .....	165
2004 .....	170.”.

(b) AMENDMENT OF ERISA.—Section 302(c)(7) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1082(c)(7)) is amended—

(1) by striking “the applicable percentage” in subparagraph (A)(i)(I) and inserting “in the case of plan years beginning before January 1, 2005, the applicable percentage”; and

(2) by amending subparagraph (F) to read as follows:

“(F) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A)(i)(I), the applicable percentage shall be determined in accordance with the following table:

In the case of any plan year beginning in—	The applicable percentage is—
2002 .....	160
2003 .....	165
2004 .....	170.”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to plan years beginning after December 31, 2001.

#### SEC. 652. MAXIMUM CONTRIBUTION DEDUCTION RULES MODIFIED AND APPLIED TO ALL DEFINED BENEFIT PLANS.

(a) IN GENERAL.—Subparagraph (D) of section 404(a)(1) (relating to special rule in case of certain plans) is amended to read as follows:

“(D) SPECIAL RULE IN CASE OF CERTAIN PLANS.—

“(i) IN GENERAL.—In the case of any defined benefit plan, except as provided in regulations, the maximum amount deductible under the limitations of this paragraph shall not be less than the unfunded termination liability (determined as if the proposed termination date referred to in section 4041(b)(2)(A)(i)(II) of the Employee Retirement Income Security Act of 1974 were the last day of the plan year).

“(ii) PLANS WITH LESS THAN 100 PARTICIPANTS.—For purposes of this subparagraph,

in the case of a plan which has less than 100 participants for the plan year, termination liability shall not include the liability attributable to benefit increases for highly compensated employees (as defined in section 414(q)) resulting from a plan amendment which is made or becomes effective, whichever is later, within the last 2 years before the termination date.

“(iii) RULE FOR DETERMINING NUMBER OF PARTICIPANTS.—For purposes of determining whether a plan has more than 100 participants, all defined benefit plans maintained by the same employer (or any member of such employer’s controlled group (within the meaning of section 412(l)(8)(C))) shall be treated as one plan, but only employees of such member or employer shall be taken into account.

“(iv) PLANS MAINTAINED BY PROFESSIONAL SERVICE EMPLOYERS.—Clause (i) shall not apply to a plan described in section 4021(b)(13) of the Employee Retirement Income Security Act of 1974.”.

(b) CONFORMING AMENDMENT.—Paragraph (6) of section 4972(c) is amended to read as follows:

“(6) EXCEPTIONS.—In determining the amount of nondeductible contributions for any taxable year, there shall not be taken into account so much of the contributions to one or more defined contribution plans which are not deductible when contributed solely because of section 404(a)(7) as does not exceed the greater of—

“(A) the amount of contributions not in excess of 6 percent of compensation (within the meaning of section 404(a)) paid or accrued (during the taxable year for which the contributions were made) to beneficiaries under the plans, or

“(B) the sum of—

“(i) the amount of contributions described in section 401(m)(4)(A), plus

“(ii) the amount of contributions described in section 402(g)(3)(A).

For purposes of this paragraph, the deductible limits under section 404(a)(7) shall first be applied to amounts contributed to a defined benefit plan and then to amounts described in subparagraph (B).”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to plan years beginning after December 31, 2001.

#### SEC. 653. EXCISE TAX RELIEF FOR SOUND PENSION FUNDING.

(a) IN GENERAL.—Subsection (c) of section 4972 (relating to nondeductible contributions) is amended by adding at the end the following new paragraph:

“(7) DEFINED BENEFIT PLAN EXCEPTION.—In determining the amount of nondeductible contributions for any taxable year, an employer may elect for such year not to take into account any contributions to a defined benefit plan except to the extent that such contributions exceed the full-funding limitation (as defined in section 412(c)(7), determined without regard to subparagraph (A)(i)(I) thereof). For purposes of this paragraph, the deductible limits under section 404(a)(7) shall first be applied to amounts contributed to defined contribution plans and then to amounts described in this paragraph. If an employer makes an election under this paragraph for a taxable year, paragraph (6) shall not apply to such employer for such taxable year.”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to years beginning after December 31, 2001.

#### SEC. 654. TREATMENT OF MULTIEMPLOYER PLANS UNDER SECTION 415.

(a) COMPENSATION LIMIT.—

(1) IN GENERAL.—Paragraph (11) of section 415(b) (relating to limitation for defined benefit plans) is amended to read as follows:

“(11) SPECIAL LIMITATION RULE FOR GOVERNMENTAL AND MULTIEMPLOYER PLANS.—In the case of a governmental plan (as defined in section 414(d)) or a multiemployer plan (as defined in section 414(f)), subparagraph (B) of paragraph (1) shall not apply.”.

(2) CONFORMING AMENDMENT.—Section 415(b)(7) (relating to benefits under certain collectively bargained plans) is amended by inserting “(other than a multiemployer plan)” after “defined benefit plan” in the matter preceding subparagraph (A).

(b) COMBINING AND AGGREGATION OF PLANS.—

(1) COMBINING OF PLANS.—Subsection (f) of section 415 (relating to combining of plans) is amended by adding at the end the following:

“(3) EXCEPTION FOR MULTIEMPLOYER PLANS.—Notwithstanding paragraph (1) and subsection (g), a multiemployer plan (as defined in section 414(f)) shall not be combined or aggregated with any other plan maintained by an employer for purposes of applying subsection (b)(1)(B) to such plan or any other such plan.”.

(2) CONFORMING AMENDMENT FOR AGGREGATION OF PLANS.—Subsection (g) of section 415 (relating to aggregation of plans) is amended by striking “The Secretary” and inserting “Except as provided in subsection (f)(3), the Secretary”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to years beginning after December 31, 2001.

#### SEC. 655. PROTECTION OF INVESTMENT OF EMPLOYEE CONTRIBUTIONS TO 401(k) PLANS.

(a) IN GENERAL.—Section 1524(b) of the Taxpayer Relief Act of 1997 is amended to read as follows:

“(b) EFFECTIVE DATE.—

“(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to elective deferrals for plan years beginning after December 31, 1998.

“(2) NONAPPLICATION TO PREVIOUSLY ACQUIRED PROPERTY.—The amendments made by this section shall not apply to any elective deferral which is invested in assets consisting of qualifying employer securities, qualifying employer real property, or both, if such assets were acquired before January 1, 1999.”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply as if included in the provision of the Taxpayer Relief Act of 1997 to which it relates.

#### SEC. 656. PROHIBITED ALLOCATIONS OF STOCK IN S CORPORATION ESOP.

(a) IN GENERAL.—Section 409 (relating to qualifications for tax credit employee stock ownership plans) is amended by redesignating subsection (p) as subsection (q) and by inserting after subsection (o) the following new subsection:

“(p) PROHIBITED ALLOCATIONS OF SECURITIES IN AN S CORPORATION.—

“(1) IN GENERAL.—An employee stock ownership plan holding employer securities consisting of stock in an S corporation shall provide that no portion of the assets of the plan attributable to (or allocable in lieu of) such employer securities may, during a non-allocation year, accrue (or be allocated directly or indirectly under any plan of the employer meeting the requirements of section 401(a)) for the benefit of any disqualified person.

“(2) FAILURE TO MEET REQUIREMENTS.—

“(A) IN GENERAL.—If a plan fails to meet the requirements of paragraph (1), the plan

shall be treated as having distributed to any disqualified person the amount allocated to the account of such person in violation of paragraph (1) at the time of such allocation.

“(B) CROSS REFERENCE.—

“**For excise tax relating to violations of paragraph (1) and ownership of synthetic equity, see section 4979A.**

“(3) NONALLOCATION YEAR.—For purposes of this subsection—

“(A) IN GENERAL.—The term ‘nonallocation year’ means any plan year of an employee stock ownership plan if, at any time during such plan year—

“(i) such plan holds employer securities consisting of stock in an S corporation, and

“(ii) disqualified persons own at least 50 percent of the number of shares of stock in the S corporation.

“(B) ATTRIBUTION RULES.—For purposes of subparagraph (A)—

“(i) IN GENERAL.—The rules of section 318(a) shall apply for purposes of determining ownership, except that—

“(I) in applying paragraph (1) thereof, the members of an individual’s family shall include members of the family described in paragraph (4)(D), and

“(II) paragraph (4) thereof shall not apply.

“(ii) DEEMED-OWNED SHARES.—Notwithstanding the employee trust exception in section 318(a)(2)(B)(i), an individual shall be treated as owning deemed-owned shares of the individual.

Solely for purposes of applying paragraph (5), this subparagraph shall be applied after the attribution rules of paragraph (5) have been applied.

“(4) DISQUALIFIED PERSON.—For purposes of this subsection—

“(A) IN GENERAL.—The term ‘disqualified person’ means any person if—

“(i) the aggregate number of deemed-owned shares of such person and the members of such person’s family is at least 20 percent of the number of deemed-owned shares of stock in the S corporation, or

“(ii) in the case of a person not described in clause (i), the number of deemed-owned shares of such person is at least 10 percent of the number of deemed-owned shares of stock in such corporation.

“(B) TREATMENT OF FAMILY MEMBERS.—In the case of a disqualified person described in subparagraph (A)(i), any member of such person’s family with deemed-owned shares shall be treated as a disqualified person if not otherwise treated as a disqualified person under subparagraph (A).

“(C) DEEMED-OWNED SHARES.—

“(i) IN GENERAL.—The term ‘deemed-owned shares’ means, with respect to any person—

“(I) the stock in the S corporation constituting employer securities of an employee stock ownership plan which is allocated to such person under the plan, and

“(II) such person’s share of the stock in such corporation which is held by such plan but which is not allocated under the plan to participants.

“(ii) PERSON’S SHARE OF UNALLOCATED STOCK.—For purposes of clause (i)(II), a person’s share of unallocated S corporation stock held by such plan is the amount of the unallocated stock which would be allocated to such person if the unallocated stock were allocated to all participants in the same proportions as the most recent stock allocation under the plan.

“(D) MEMBER OF FAMILY.—For purposes of this paragraph, the term ‘member of the family’ means, with respect to any individual—

“(i) the spouse of the individual,

“(ii) an ancestor or lineal descendant of the individual or the individual’s spouse,

“(iii) a brother or sister of the individual or the individual’s spouse and any lineal descendant of the brother or sister, and

“(iv) the spouse of any individual described in clause (ii) or (iii).

A spouse of an individual who is legally separated from such individual under a decree of divorce or separate maintenance shall not be treated as such individual’s spouse for purposes of this subparagraph.

“(5) TREATMENT OF SYNTHETIC EQUITY.—For purposes of paragraphs (3) and (4), in the case of a person who owns synthetic equity in the S corporation, except to the extent provided in regulations, the shares of stock in such corporation on which such synthetic equity is based shall be treated as outstanding stock in such corporation and deemed-owned shares of such person if such treatment of synthetic equity of 1 or more such persons results in—

“(A) the treatment of any person as a disqualified person, or

“(B) the treatment of any year as a non-allocation year.

For purposes of this paragraph, synthetic equity shall be treated as owned by a person in the same manner as stock is treated as owned by a person under the rules of paragraphs (2) and (3) of section 318(a). If, without regard to this paragraph, a person is treated as a disqualified person or a year is treated as a nonallocation year, this paragraph shall not be construed to result in the person or year not being so treated.

“(6) DEFINITIONS.—For purposes of this subsection—

“(A) EMPLOYEE STOCK OWNERSHIP PLAN.—The term ‘employee stock ownership plan’ has the meaning given such term by section 4975(e)(7).

“(B) EMPLOYER SECURITIES.—The term ‘employer security’ has the meaning given such term by section 409(1).

“(C) SYNTHETIC EQUITY.—The term ‘synthetic equity’ means any stock option, warrant, restricted stock, deferred issuance stock right, or similar interest or right that gives the holder the right to acquire or receive stock of the S corporation in the future. Except to the extent provided in regulations, synthetic equity also includes a stock appreciation right, phantom stock unit, or similar right to a future cash payment based on the value of such stock or appreciation in such value.

“(7) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this subsection.”

(b) COORDINATION WITH SECTION 4975(e)(7).—The last sentence of section 4975(e)(7) (defining employee stock ownership plan) is amended by inserting “, section 409(p),” after “409(n)”.

(c) EXCISE TAX.—

(1) APPLICATION OF TAX.—Subsection (a) of section 4979A (relating to tax on certain prohibited allocations of employer securities) is amended—

(A) by striking “or” at the end of paragraph (1), and

(B) by striking all that follows paragraph (2) and inserting the following:

“(3) there is any allocation of employer securities which violates the provisions of section 409(p), or a nonallocation year described in subsection (e)(2)(C) with respect to an employee stock ownership plan, or

“(4) any synthetic equity is owned by a disqualified person in any nonallocation year,

there is hereby imposed a tax on such allocation or ownership equal to 50 percent of the amount involved.”

(2) LIABILITY.—Section 4979A(c) (defining liability for tax) is amended to read as follows:

“(C) LIABILITY FOR TAX.—The tax imposed by this section shall be paid—

“(1) in the case of an allocation referred to in paragraph (1) or (2) of subsection (a), by—

“(A) the employer sponsoring such plan, or

“(B) the eligible worker-owned cooperative,

which made the written statement described in section 664(g)(1)(E) or in section 1042(b)(3)(B) (as the case may be), and

“(2) in the case of an allocation or ownership referred to in paragraph (3) or (4) of subsection (a), by the S corporation the stock in which was so allocated or owned.”

(3) DEFINITIONS.—Section 4979A(e) (relating to definitions) is amended to read as follows:

“(e) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

“(1) DEFINITIONS.—Except as provided in paragraph (2), terms used in this section have the same respective meanings as when used in sections 409 and 4978.

“(2) SPECIAL RULES RELATING TO TAX IMPOSED BY REASON OF PARAGRAPH (3) OR (4) OF SUBSECTION (a).—

“(A) PROHIBITED ALLOCATIONS.—The amount involved with respect to any tax imposed by reason of subsection (a)(3) is the amount allocated to the account of any person in violation of section 409(p)(1).

“(B) SYNTHETIC EQUITY.—The amount involved with respect to any tax imposed by reason of subsection (a)(4) is the value of the shares on which the synthetic equity is based.

“(C) SPECIAL RULE DURING FIRST NON-ALLOCATION YEAR.—For purposes of subparagraph (A), the amount involved for the first nonallocation year of any employee stock ownership plan shall be determined by taking into account the total value of all the deemed-owned shares of all disqualified persons with respect to such plan.

“(D) STATUTE OF LIMITATIONS.—The statutory period for the assessment of any tax imposed by this section by reason of paragraph (3) or (4) of subsection (a) shall not expire before the date which is 3 years from the later of—

“(i) the allocation or ownership referred to in such paragraph giving rise to such tax, or

“(ii) the date on which the Secretary is notified of such allocation or ownership.”

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to plan years beginning after December 31, 2002.

(2) EXCEPTION FOR CERTAIN PLANS.—In the case of any—

(A) employee stock ownership plan established after July 11, 2000, or

(B) employee stock ownership plan established on or before such date if employer securities held by the plan consist of stock in a corporation with respect to which an election under section 1362(a) of the Internal Revenue Code of 1986 is not in effect on such date,

the amendments made by this section shall apply to plan years ending after July 11, 2000.

**SEC. 657. AUTOMATIC ROLLOVERS OF CERTAIN MANDATORY DISTRIBUTIONS.**

(a) DIRECT TRANSFERS OF MANDATORY DISTRIBUTIONS.—

(1) IN GENERAL.—Section 401(a)(31) (relating to optional direct transfer of eligible rollover distributions), as amended by section 643, is amended by redesignating subparagraphs (B), (C), and (D) as subparagraphs (C),

(D), and (E), respectively, and by inserting after subparagraph (A) the following new subparagraph:

“(B) CERTAIN MANDATORY DISTRIBUTIONS.—

“(i) IN GENERAL.—In case of a trust which is part of an eligible plan, such trust shall not constitute a qualified trust under this section unless the plan of which such trust is a part provides that if—

“(I) a distribution described in clause (ii) in excess of \$1,000 is made, and

“(II) the distributee does not make an election under subparagraph (A) and does not elect to receive the distribution directly, the plan administrator shall make such transfer to an individual retirement account or annuity of a designated trustee or issuer and shall notify the distributee in writing (either separately or as part of the notice under section 402(f)) that the distribution may be transferred without cost or penalty to another individual account or annuity.

“(ii) ELIGIBLE PLAN.—For purposes of clause (i), the term ‘eligible plan’ means a plan which provides that any nonforfeitable accrued benefit for which the present value (as determined under section 411(a)(11)) does not exceed \$5,000 shall be immediately distributed to the participant.”.

(2) CONFORMING AMENDMENTS.—

(A) The heading of section 401(a)(31) is amended by striking “OPTIONAL DIRECT” and inserting “DIRECT”.

(B) Section 401(a)(31)(C), as redesignated by paragraph (1), is amended by striking “Subparagraph (A)” and inserting “Subparagraphs (A) and (B)”.

(b) NOTICE REQUIREMENT.—Section 402(f)(1) (relating to written explanation to recipients of distributions eligible for rollover treatment) is amended by striking “and” at the end of subparagraph (C), by striking the period at the end of subparagraph (D), and by adding at the end the following new subparagraph:

“(E) if applicable, of the provision requiring a direct trustee-to-trustee transfer of a distribution under section 401(a)(31)(B) unless the recipient elects otherwise.”.

(c) FIDUCIARY RULES.—

(i) IN GENERAL.—Section 404(c) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1104(c)) is amended by adding at the end the following new paragraph:

“(3) In the case of a pension plan which makes a transfer to an individual retirement account or annuity of a designated trustee or issuer under section 401(a)(31)(B) of the Internal Revenue Code of 1986, the participant or beneficiary shall, for purposes of paragraph (1), be treated as exercising control over the assets in the account or annuity upon the earlier of—

“(A) a rollover of all or a portion of the amount to another individual retirement account or annuity; or

“(B) one year after the transfer is made.”.

(2) REGULATIONS.—

(A) AUTOMATIC ROLLOVER SAFE HARBOR.—The Secretary of Labor shall promulgate regulations to provide guidance regarding meeting the fiduciary requirements of section 404(a) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1104(a)) in the case of a pension plan which makes a transfer under section 401(a)(31)(B) of the Internal Revenue Code of 1986.

(B) USE OF LOW-COST INDIVIDUAL RETIREMENT PLANS.—The Secretary of the Treasury and the Secretary of Labor shall promulgate such regulations as necessary to encourage the use of low-cost individual retirement plans for purposes of transfers under section 401(a)(31)(B) of the Internal Revenue Code of

1986 and for other uses as appropriate to promote the preservation of assets for retirement income purposes.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to distributions made after final regulations implementing subsection (c) are prescribed.

#### SEC. 658. CLARIFICATION OF TREATMENT OF CONTRIBUTIONS TO MULTIEMPLOYER PLAN.

(a) NOT CONSIDERED METHOD OF ACCOUNTING.—For purposes of section 446 of the Internal Revenue Code of 1986, a determination under section 404(a)(6) of such Code regarding the taxable year with respect to which a contribution to a multiemployer pension plan is deemed made shall not be treated as a method of accounting of the taxpayer. No deduction shall be allowed for any taxable year for any contribution to a multiemployer pension plan with respect to which a deduction was previously allowed.

(b) REGULATIONS.—The Secretary of the Treasury shall promulgate such regulations as necessary to clarify that a taxpayer shall not be allowed, with respect to any taxable year, an aggregate amount of deductions for contributions to a multiemployer pension plan which exceeds the amount of such contributions made or deemed made under section 404(a)(6) of the Internal Revenue Code of 1986 to such plan.

(c) EFFECTIVE DATE.—Subsection (a), and any regulations promulgated under subsection (b), shall be effective for years ending after the date of the enactment of this Act.

#### PART II—TREATMENT OF PLAN AMENDMENTS REDUCING FUTURE BENEFIT ACCRUALS

##### SEC. 659. NOTICE REQUIRED FOR PENSION PLAN AMENDMENTS HAVING THE EFFECT OF SIGNIFICANTLY REDUCING FUTURE BENEFIT ACCRUALS.

(a) EXCISE TAX.—

(1) IN GENERAL.—Chapter 43 (relating to qualified pension, etc., plans) is amended by adding at the end the following new section:

##### “SEC. 4980F. FAILURE TO PROVIDE NOTICE OF PENSION PLAN AMENDMENTS REDUCING BENEFIT ACCRUALS.

“(a) IMPOSITION OF TAX.—There is hereby imposed a tax on the failure of an applicable pension plan to meet the requirements of subsection (e) with respect to any applicable individual.

“(b) AMOUNT OF TAX.—

“(1) IN GENERAL.—The amount of the tax imposed by subsection (a) on any failure with respect to any applicable individual shall be \$100 for each day in the noncompliance period with respect to such failure.

“(2) NONCOMPLIANCE PERIOD.—For purposes of this section, the term ‘noncompliance period’ means, with respect to any failure, the period beginning on the date the failure first occurs and ending on the date the notice to which the failure relates is provided or the failure is otherwise corrected.

“(c) LIMITATIONS ON AMOUNT OF TAX.—

“(1) TAX NOT TO APPLY WHERE FAILURE NOT DISCOVERED AND REASONABLE DILIGENCE EXERCISED.—No tax shall be imposed by subsection (a) on any failure during any period for which it is established to the satisfaction of the Secretary that any person subject to liability for the tax under subsection (d) did not know that the failure existed and exercised reasonable diligence to meet the requirements of subsection (e).

“(2) TAX NOT TO APPLY TO FAILURES CORRECTED WITHIN 30 DAYS.—No tax shall be imposed by subsection (a) on any failure if—

“(A) any person subject to liability for the tax under subsection (d) exercised reasonable

diligence to meet the requirements of subsection (e), and

“(B) such person provides the notice described in subsection (e) during the 30-day period beginning on the first date such person knew, or exercising reasonable diligence would have known, that such failure existed.

“(3) OVERALL LIMITATION FOR UNINTENTIONAL FAILURES.—

“(A) IN GENERAL.—If the person subject to liability for tax under subsection (d) exercised reasonable diligence to meet the requirements of subsection (e), the tax imposed by subsection (a) for failures during the taxable year of the employer (or, in the case of a multiemployer plan, the taxable year of the trust forming part of the plan) shall not exceed \$500,000. For purposes of the preceding sentence, all multiemployer plans of which the same trust forms a part shall be treated as 1 plan.

“(B) TAXABLE YEARS IN THE CASE OF CERTAIN CONTROLLED GROUPS.—For purposes of this paragraph, if all persons who are treated as a single employer for purposes of this section do not have the same taxable year, the taxable years taken into account shall be determined under principles similar to the principles of section 1561.

“(4) WAIVER BY SECRETARY.—In the case of a failure which is due to reasonable cause and not to willful neglect, the Secretary may waive part or all of the tax imposed by subsection (a) to the extent that the payment of such tax would be excessive or otherwise inequitable relative to the failure involved.

“(d) LIABILITY FOR TAX.—The following shall be liable for the tax imposed by subsection (a):

“(1) In the case of a plan other than a multiemployer plan, the employer.

“(2) In the case of a multiemployer plan, the plan.

“(e) NOTICE REQUIREMENTS FOR PLAN AMENDMENTS SIGNIFICANTLY REDUCING BENEFIT ACCRUALS.—

“(1) IN GENERAL.—If the sponsor of an applicable pension plan adopts an amendment which has the effect of significantly reducing the rate of future benefit accrual of 1 or more participants, the plan administrator shall, not later than the 45th day before the effective date of the amendment, provide written notice to each applicable individual (and to each employee organization representing applicable individuals) which—

“(A) sets forth a summary of the plan amendment and the effective date of the amendment,

“(B) includes a statement that the plan amendment is expected to significantly reduce the rate of future benefit accrual,

“(C) includes a description of the classes of employees reasonably expected to be affected by the reduction in the rate of future benefit accrual,

“(D) sets forth examples illustrating how the plan will change benefits for such classes of employees,

“(E) if paragraph (2) applies to the plan amendment, includes a notice that the plan administrator will provide a benefit estimation tool kit described in paragraph (2)(B) to each applicable individual no later than the date required under paragraph (2)(A), and

“(F) includes a notice of each applicable individual's right under Federal law to receive, and of the procedures for requesting, an annual benefit statement.

“(2) REQUIREMENT TO PROVIDE BENEFIT ESTIMATION TOOL KIT.—

“(A) IN GENERAL.—If a plan amendment results in the significant restructuring of the plan benefit formula (as determined under

regulations prescribed by the Secretary), the plan administrator shall, not later than the 15th day before the effective date of the amendment, provide a benefit estimation tool kit described in subparagraph (B) to each applicable individual. If such plan amendment occurs within 12 months of an event described in section 410(b)(6)(C), the plan administrator shall in no event be required to provide the benefit estimation tool kit to applicable individuals affected by the event before the date which is 12 months after the date on which notice under paragraph (1) is given to such applicable individuals.

“(B) **BENEFIT ESTIMATION TOOL KIT.**—The benefit estimation tool kit described in this subparagraph shall include the following information:

“(i) Sufficient information to enable an applicable individual to estimate the individual's projected benefits under the terms of the plan in effect both before and after the adoption of the amendment.

“(ii) The formulas and actuarial assumptions necessary to estimate under both such plan terms a single life annuity at appropriate ages, and, when available, a lump sum distribution.

“(iii) The interest rate used to compute a lump sum distribution and information as to whether the value of any early retirement benefit or retirement-type subsidy (within the meaning of section 411(d)(6)(B)(i)) is included in the lump sum distribution.

“(3) **NOTICE TO DESIGNEE.**—Any notice under paragraph (1) or (2) may be provided to a person designated, in writing, by the person to which it would otherwise be provided.

“(4) **FORM OF EXPLANATION.**—The information required to be provided under this subsection shall be provided in a manner calculated to be reasonably understood by the average plan participant.

“(f) **DEFINITIONS AND SPECIAL RULES.**—For purposes of this section—

“(1) **APPLICABLE INDIVIDUAL.**—

“(A) **IN GENERAL.**—The term ‘applicable individual’ means, with respect to any plan amendment—

“(i) each participant in the plan, and

“(ii) any beneficiary who is an alternate payee (within the meaning of section 414(p)(8)) under an applicable qualified domestic relations order (within the meaning of section 414(p)(1)(A)),

whose rate of future benefit accrual under the plan may reasonably be expected to be significantly reduced by such plan amendment.

“(B) **EXCEPTION FOR PARTICIPANTS WITH LESS THAN 1 YEAR OF PARTICIPATION.**—Such term shall not include a participant who has less than 1 year of participation (within the meaning of section 411(b)(4)) under the plan as of the effective date of the plan amendment.

“(2) **APPLICABLE PENSION PLAN.**—The term ‘applicable pension plan’ means—

“(A) a defined benefit plan, or

“(B) an individual account plan which is subject to the funding standards of section 412.

Such term shall not include a governmental plan (within the meaning of section 414(d)), a church plan (within the meaning of section 414(e)) with respect to which an election under section 410(d) has not been made, or any other plan to which section 204(h) of the Employee Retirement Income Security Act of 1974 does not apply.

“(3) **EARLY RETIREMENT.**—A plan amendment which eliminates or significantly reduces any early retirement benefit or retire-

ment-type subsidy (within the meaning of section 411(d)(6)(B)(i)) shall be treated as having the effect of significantly reducing the rate of future benefit accrual.

“(g) **REGULATIONS.**—The Secretary shall, not later than 1 year after the date of the enactment of this section, issue—

“(1) the regulations described in subsection (e)(2)(A) and section 204(h)(2)(A) of the Employee Retirement Income Security Act of 1974, and

“(2) guidance for both of the examples described in subsection (e)(1)(D) and section 204(h)(1)(D) of the Employee Retirement Income Security Act of 1974 and the benefit estimation tool kit described in subsection (e)(2)(B) and section 204(h)(2)(B) of the Employee Retirement Income Security Act of 1974.

“(h) **NEW TECHNOLOGIES.**—The Secretary may by regulation allow any notice under paragraph (1) or (2) of subsection (e) to be provided by using new technologies. Such regulations shall ensure that at least one option for providing such notice is not dependent on new technologies.”

(2) **CONFORMING AMENDMENT.**—The table of sections for chapter 43 is amended by adding at the end the following new item:

“Sec. 4980F. Failure to provide notice of pension plan amendments reducing benefit accruals.”

(b) **AMENDMENT OF ERISA.**—Section 204(h) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1054(h)) is amended to read as follows:

“(h)(1) If an applicable pension plan is amended so as to provide a significant reduction in the rate of future benefit accrual of 1 or more participants, the plan administrator shall, not later than the 45th day before the effective date of the amendment, provide written notice to each applicable individual (and to each employee organization representing applicable individuals) which—

“(A) sets forth a summary of the plan amendment and the effective date of the amendment,

“(B) includes a statement that the plan amendment is expected to significantly reduce the rate of future benefit accrual,

“(C) includes a description of the classes of employees reasonably expected to be affected by the reduction in the rate of future benefit accrual,

“(D) sets forth examples illustrating how the plan will change benefits for such classes of employees,

“(E) if paragraph (2) applies to the plan amendment, includes a notice that the plan administrator will provide a benefit estimation tool kit described in paragraph (2)(B) to each applicable individual no later than the date required under paragraph (2)(A), and

“(F) includes a notice of each applicable individual's right under Federal law to receive, and of the procedures for requesting, an annual benefit statement.

“(2)(A) If a plan amendment results in the significant restructuring of the plan benefit formula (as determined under regulations prescribed by the Secretary of the Treasury), the plan administrator shall, not later than the 15th day before the effective date of the amendment, provide a benefit estimation tool kit described in subparagraph (B) to each applicable individual. If such plan amendment occurs within 12 months of an event described in section 410(b)(6)(C) of the Internal Revenue Code of 1986, the plan administrator shall in no event be required to provide the benefit estimation tool kit to applicable individuals affected by the event before the date which is 12 months after the

date on which notice under paragraph (1) is given to such applicable individuals.

“(B) The benefit estimation tool kit described in this subparagraph shall include the following information:

“(i) Sufficient information to enable an applicable individual to estimate the individual's projected benefits under the terms of the plan in effect both before and after the adoption of the amendment.

“(ii) The formulas and actuarial assumptions necessary to estimate under both such plan terms a single life annuity at appropriate ages, and, when available, a lump sum distribution.

“(iii) The interest rate used to compute a lump sum distribution and information as to whether the value of any early retirement benefit or retirement-type subsidy (within the meaning of subsection (g)(2)(A)) is included in the lump sum distribution.

“(3) Any notice under paragraph (1) or (2) may be provided to a person designated, in writing, by the person to which it would otherwise be provided.

“(4) The information required to be provided under this subsection shall be provided in a manner calculated to be reasonably understood by the average participant.

“(5)(A) In the case of any failure to exercise due diligence in meeting any requirement of this subsection with respect to any plan amendment, the provisions of the applicable pension plan shall be applied as if such plan amendment entitled all applicable individuals to the greater of—

“(i) the benefits to which they would have been entitled without regard to such amendment, or

“(ii) the benefits under the plan with regard to such amendment.

“(B) For purposes of subparagraph (A), there is a failure to exercise due diligence in meeting the requirements of this subsection if such failure is within the control of the plan sponsor and is—

“(i) an intentional failure (including any failure to promptly provide the required notice or information after the plan administrator discovers an unintentional failure to meet the requirements of this subsection),

“(ii) a failure to provide most of the individuals with most of the information they are entitled to receive under this subsection, or

“(iii) a failure to exercise due diligence which is determined under regulations prescribed by the Secretary of the Treasury.

“(C) For excise tax on failure to meet requirements, see section 4980F of the Internal Revenue Code of 1986.

“(5)(A) For purposes of this subsection, the term ‘applicable individual’ means, with respect to any plan amendment—

“(i) each participant in the plan, and

“(ii) any beneficiary who is an alternate payee (within the meaning of section 206(d)(3)(K)) under an applicable qualified domestic relations order (within the meaning of section 206(d)(3)(B)),

whose rate of future benefit accrual under the plan may reasonably be expected to be significantly reduced by such plan amendment.

“(B) Such term shall not include a participant who has less than 1 year of participation (within the meaning of subsection (b)(4)) under the plan as of the effective date of the plan amendment.

“(6) For purposes of this subsection, the term ‘applicable pension plan’ means—

“(A) a defined benefit plan, or

“(B) an individual account plan which is subject to the funding standards of section 302.

“(7) For purposes of this subsection, a plan amendment which eliminates or significantly reduces any early retirement benefit or retirement-type subsidy (within the meaning of section 204(g)(2)(A)) shall be treated as having the effect of significantly reducing the rate of future benefit accrual.

“(8) The Secretary of the Treasury may by regulation allow any notice under this subsection to be provided by using new technologies. Such regulation shall ensure that at least one option for providing such notice is not dependent on new technologies.”

(c) REGULATIONS RELATING TO EARLY RETIREMENT SUBSIDIES.—The Secretary of the Treasury or the Secretary's delegate shall, not later than 1 year after the date of the enactment of this Act, issue regulations relating to early retirement benefits or retirement-type subsidies described in section 411(d)(6)(B)(i) of the Internal Revenue Code of 1986 and section 204(g)(2)(A) of the Employee Retirement Income Security Act of 1974.

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall apply to plan amendments taking effect on or after the date of the enactment of this Act.

(2) TRANSITION.—Until such time as the Secretary of the Treasury issues regulations under section 4980F(e)(2) of the Internal Revenue Code of 1986 and section 204(h)(2) of the Employee Retirement Income Security Act of 1974 (as added by the amendments made by this section), a plan shall be treated as meeting the requirements of such sections if it makes a good faith effort to comply with such requirements.

(3) SPECIAL NOTICE RULES.—The period for providing any notice required by the amendments made by this section shall not end before the date which is 3 months after the date of the enactment of this Act.

(d) STUDY.—The Secretary of the Treasury shall prepare a report on the effects of significant restructurings of plan benefit formulas of traditional defined benefit plans. Such study shall examine the effects of such restructurings on longer service participants, including the incidence and effects of “wear away” provisions under which participants earn no additional benefits for a period of time after restructuring. As soon as practicable, but not later than one year after the date of enactment of this Act, the Secretary shall submit such report, together with recommendations thereon, to the Committee on Ways and Means and the Committee on Education and the Workforce of the House of Representatives and the Committee on Finance and the Committee on Health, Education, Labor, and Pensions of the Senate.

#### Subtitle F—Reducing Regulatory Burdens

#### SEC. 661. MODIFICATION OF TIMING OF PLAN VALUATIONS.

(a) IN GENERAL.—Paragraph (9) of section 412(c) (relating to annual valuation) is amended to read as follows:

“(9) ANNUAL VALUATION.—

“(A) IN GENERAL.—For purposes of this section, a determination of experience gains and losses and a valuation of the plan's liability shall be made not less frequently than once every year, except that such determination shall be made more frequently to the extent required in particular cases under regulations prescribed by the Secretary.

“(B) VALUATION DATE.—

“(i) CURRENT YEAR.—Except as provided in clause (ii), the valuation referred to in subparagraph (A) shall be made as of a date within the plan year to which the valuation refers or within one month prior to the beginning of such year.

“(ii) ELECTION TO USE PRIOR YEAR VALUATION.—The valuation referred to in subparagraph (A) may be made as of a date within the plan year prior to the year to which the valuation refers if—

“(I) an election is in effect under this clause with respect to the plan, and

“(II) as of such date, the value of the assets of the plan are not less than 125 percent of the plan's current liability (as defined in paragraph (7)(B)).

“(iii) ADJUSTMENTS.—Information under clause (ii) shall, in accordance with regulations, be actuarially adjusted to reflect significant differences in participants.

“(iv) ELECTION.—An election under clause (ii), once made, shall be irrevocable without the consent of the Secretary.”

(b) AMENDMENT OF ERISA.—Paragraph (9) of section 302(c) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1053(c)) is amended—

(1) by inserting “(A)” after “(9)”, and

(2) by adding at the end the following:

“(B)(i) Except as provided in clause (ii), the valuation referred to in subparagraph (A) shall be made as of a date within the plan year to which the valuation refers or within one month prior to the beginning of such year.

“(ii) The valuation referred to in subparagraph (A) may be made as of a date within the plan year prior to the year to which the valuation refers if—

“(I) an election is in effect under this clause with respect to the plan, and

“(II) as of such date, the value of the assets of the plan are not less than 125 percent of the plan's current liability (as defined in paragraph (7)(B)).

“(iii) Information under clause (ii) shall, in accordance with regulations, be actuarially adjusted to reflect significant differences in participants.

“(iv) An election under clause (ii), once made, shall be irrevocable without the consent of the Secretary of the Treasury.”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to plan years beginning after December 31, 2001.

#### SEC. 662. ESOP DIVIDENDS MAY BE REINVESTED WITHOUT LOSS OF DIVIDEND DEDUCTION.

(a) IN GENERAL.—Section 404(k)(2)(A) (defining applicable dividends) is amended by striking “or” at the end of clause (ii), by redesignating clause (iii) as clause (iv), and by inserting after clause (ii) the following new clause:

“(iii) is, at the election of such participants or their beneficiaries—

“(I) payable as provided in clause (i) or (ii), or

“(II) paid to the plan and reinvested in qualifying employer securities, or”.

(b) LIMITATION ON AMOUNT OF DEDUCTION.—Section 404(k)(1) (relating to deduction for dividends paid on certain employer securities) is amended to read as follows:

“(1) DEDUCTION ALLOWED.—

“(A) IN GENERAL.—In the case of a C corporation, there shall be allowed as a deduction for the taxable year an amount equal to—

“(i) the amount of any applicable dividend described in clause (i), (ii), or (iv) of paragraph (2)(A), and

“(ii) the applicable percentage of any applicable dividend described in clause (iii), paid in cash by such corporation during the taxable year with respect to applicable employer securities. Such deduction shall be in addition to the deduction allowed subsection (a).

“(B) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A), the applicable percentage shall be determined in accordance with the following table:

For taxable years beginning in:	The applicable percentage is:
2002, 2003, and 2004	25 percent
2005, 2006, and 2007	50 percent
2008, 2009, and 2010	75 percent
2011 and thereafter	100 percent

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

#### SEC. 663. REPEAL OF TRANSITION RULE RELATING TO CERTAIN HIGHLY COMPENSATED EMPLOYEES.

(a) IN GENERAL.—Paragraph (4) of section 1114(c) of the Tax Reform Act of 1986 is hereby repealed.

(b) EFFECTIVE DATE.—The repeal made by subsection (a) shall apply to plan years beginning after December 31, 2001.

#### SEC. 664. EMPLOYEES OF TAX-EXEMPT ENTITIES.

(a) IN GENERAL.—The Secretary of the Treasury shall modify Treasury Regulations section 1.410(b)-6(g) to provide that employees of an organization described in section 403(b)(1)(A)(i) of the Internal Revenue Code of 1986 who are eligible to make contributions under section 403(b) of such Code pursuant to a salary reduction agreement may be treated as excludable with respect to a plan under section 401(k) or (m) of such Code that is provided under the same general arrangement as a plan under such section 401(k), if—

(1) no employee of an organization described in section 403(b)(1)(A)(i) of such Code is eligible to participate in such section 401(k) plan or section 401(m) plan; and

(2) 95 percent of the employees who are not employees of an organization described in section 403(b)(1)(A)(i) of such Code are eligible to participate in such plan under such section 401(k) or (m).

(b) EFFECTIVE DATE.—The modification required by subsection (a) shall apply as of the same date set forth in section 1426(b) of the Small Business Job Protection Act of 1996.

#### SEC. 665. CLARIFICATION OF TREATMENT OF EMPLOYER-PROVIDED RETIREMENT ADVICE.

(a) IN GENERAL.—Subsection (a) of section 132 (relating to exclusion from gross income) is amended by striking “or” at the end of paragraph (5), by striking the period at the end of paragraph (6) and inserting “, or”, and by adding at the end the following new paragraph:

“(7) qualified retirement planning services.”.

(b) QUALIFIED RETIREMENT PLANNING SERVICES DEFINED.—Section 132 is amended by redesignating subsection (m) as subsection (n) and by inserting after subsection (l) the following:

“(m) QUALIFIED RETIREMENT PLANNING SERVICES.—

“(1) IN GENERAL.—For purposes of this section, the term ‘qualified retirement planning services’ means any retirement planning advice or information provided to an employee and his spouse by an employer maintaining a qualified employer plan.

“(2) NONDISCRIMINATION RULE.—Subsection (a)(7) shall apply in the case of highly compensated employees only if such services are available on substantially the same terms to each member of the group of employees normally provided education and information regarding the employer's qualified employer plan.

“(3) QUALIFIED EMPLOYER PLAN.—For purposes of this subsection, the term ‘qualified employer plan’ means a plan, contract, pension, or account described in section 219(g)(5).”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to years beginning after December 31, 2001.

**SEC. 666. REPORTING SIMPLIFICATION.**

(a) **SIMPLIFIED ANNUAL FILING REQUIREMENT FOR OWNERS AND THEIR SPOUSES.**—

(1) **IN GENERAL.**—The Secretary of the Treasury shall modify the requirements for filing annual returns with respect to one-participant retirement plans to ensure that such plans with assets of \$250,000 or less as of the close of the plan year and each plan year beginning on or after January 1, 1994, need not file a return for that year.

(2) **ONE-PARTICIPANT RETIREMENT PLAN DEFINED.**—For purposes of this subsection, the term “one-participant retirement plan” means a retirement plan that—

(A) on the first day of the plan year—

(i) covered only the employer (and the employer's spouse) and the employer owned the entire business (whether or not incorporated); or

(ii) covered only one or more partners (and their spouses) in a business partnership (including partners in an S or C corporation);

(B) meets the minimum coverage requirements of section 410(b) of the Internal Revenue Code of 1986 without being combined with any other plan of the business that covers the employees of the business;

(C) does not provide benefits to anyone except the employer (and the employer's spouse) or the partners (and their spouses);

(D) does not cover a business that is a member of an affiliated service group, a controlled group of corporations, or a group of businesses under common control; and

(E) does not cover a business that leases employees.

(3) **OTHER DEFINITIONS.**—Terms used in paragraph (2) which are also used in section 414 of the Internal Revenue Code of 1986 shall have the respective meanings given such terms by such section.

(b) **EFFECTIVE DATE.**—The provisions of this section shall take effect on January 1, 2002.

**SEC. 667. IMPROVEMENT OF EMPLOYEE PLANS COMPLIANCE RESOLUTION SYSTEM.**

The Secretary of the Treasury shall continue to update and improve the Employee Plans Compliance Resolution System (or any successor program) giving special attention to—

(1) increasing the awareness and knowledge of small employers concerning the availability and use of the program;

(2) taking into account special concerns and circumstances that small employers face with respect to compliance and correction of compliance failures;

(3) extending the duration of the self-correction period under the Self-Correction Program for significant compliance failures;

(4) expanding the availability to correct insignificant compliance failures under the Self-Correction Program during audit; and

(5) assuring that any tax, penalty, or sanction that is imposed by reason of a compliance failure is not excessive and bears a reasonable relationship to the nature, extent, and severity of the failure.

**SEC. 668. REPEAL OF THE MULTIPLE USE TEST.**

(a) **IN GENERAL.**—Paragraph (9) of section 401(m) is amended to read as follows:

“(9) **REGULATIONS.**—The Secretary shall prescribe such regulations as may be necessary to carry out the purposes of this subsection and subsection (k), including regulations permitting appropriate aggregation of plans and contributions.”.

(b) **EFFECTIVE DATE.**—The amendment made by this section shall apply to years beginning after December 31, 2001.

**SEC. 669. FLEXIBILITY IN NONDISCRIMINATION, COVERAGE, AND LINE OF BUSINESS RULES.**

(a) **NONDISCRIMINATION.**—

(1) **IN GENERAL.**—The Secretary of the Treasury shall, by regulation, provide that a plan shall be deemed to satisfy the requirements of section 401(a)(4) of the Internal Revenue Code of 1986 if such plan satisfies the facts and circumstances test under section 401(a)(4) of such Code, as in effect before January 1, 1994, but only if—

(A) the plan satisfies conditions prescribed by the Secretary to appropriately limit the availability of such test; and

(B) the plan is submitted to the Secretary for a determination of whether it satisfies such test.

Subparagraph (B) shall only apply to the extent provided by the Secretary.

(2) **EFFECTIVE DATES.**—

(A) **REGULATIONS.**—The regulation required by paragraph (1) shall apply to years beginning after December 31, 2001.

(B) **CONDITIONS OF AVAILABILITY.**—Any condition of availability prescribed by the Secretary under paragraph (1)(A) shall not apply before the first year beginning not less than 120 days after the date on which such condition is prescribed.

(b) **COVERAGE TEST.**—

(1) **IN GENERAL.**—Section 410(b)(1) (relating to minimum coverage requirements) is amended by adding at the end the following:

“(D) In the case that the plan fails to meet the requirements of subparagraphs (A), (B) and (C), the plan—

“(i) satisfies subparagraph (B), as in effect immediately before the enactment of the Tax Reform Act of 1986,

“(ii) is submitted to the Secretary for a determination of whether it satisfies the requirement described in clause (i), and

“(iii) satisfies conditions prescribed by the Secretary by regulation that appropriately limit the availability of this subparagraph.

Clause (ii) shall apply only to the extent provided by the Secretary.”.

(2) **EFFECTIVE DATES.**—

(A) **IN GENERAL.**—The amendment made by paragraph (1) shall apply to years beginning after December 31, 2001.

(B) **CONDITIONS OF AVAILABILITY.**—Any condition of availability prescribed by the Secretary under regulations prescribed by the Secretary under section 410(b)(1)(D) of the Internal Revenue Code of 1986 shall not apply before the first year beginning not less than 120 days after the date on which such condition is prescribed.

(c) **LINE OF BUSINESS RULES.**—The Secretary of the Treasury shall, on or before December 31, 2001, modify the existing regulations issued under section 414(r) of the Internal Revenue Code of 1986 in order to expand (to the extent that the Secretary determines appropriate) the ability of a pension plan to demonstrate compliance with the line of business requirements based upon the facts and circumstances surrounding the design and operation of the plan, even though the plan is unable to satisfy the mechanical tests currently used to determine compliance.

**SEC. 670. EXTENSION TO ALL GOVERNMENTAL PLANS OF MORATORIUM ON APPLICATION OF CERTAIN NONDISCRIMINATION RULES APPLICABLE TO STATE AND LOCAL PLANS.**

(a) **IN GENERAL.**—

(1) Subparagraph (G) of section 401(a)(5) and subparagraph (H) of section 401(a)(26) are each amended by striking “section 414(d)” and all that follows and inserting “section 414(d)).”.

(2) Subparagraph (G) of section 401(k)(3) and paragraph (2) of section 1505(d) of the Taxpayer Relief Act of 1997 are each amended by striking “maintained by a State or local government or political subdivision thereof (or agency or instrumentality thereof)”.

(b) **CONFORMING AMENDMENTS.**—

(1) The heading for subparagraph (G) of section 401(a)(5) is amended to read as follows: “GOVERNMENTAL PLANS”.

(2) The heading for subparagraph (H) of section 401(a)(26) is amended to read as follows: “EXCEPTION FOR GOVERNMENTAL PLANS”.

(3) Subparagraph (G) of section 401(k)(3) is amended by inserting “GOVERNMENTAL PLANS.” after “(G)”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to years beginning after December 31, 2001.

**Subtitle G—Other ERISA Provisions**

**SEC. 681. MISSING PARTICIPANTS.**

(a) **IN GENERAL.**—Section 4050 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1350) is amended by redesignating subsection (c) as subsection (e) and by inserting after subsection (b) the following new subsection:

“(c) **MULTIEMPLOYER PLANS.**—The corporation shall prescribe rules similar to the rules in subsection (a) for multiemployer plans covered by this title that terminate under section 4041A.

“(d) **PLANS NOT OTHERWISE SUBJECT TO TITLE.**—

“(1) **TRANSFER TO CORPORATION.**—The plan administrator of a plan described in paragraph (4) may elect to transfer a missing participant's benefits to the corporation upon termination of the plan.

“(2) **INFORMATION TO THE CORPORATION.**—To the extent provided in regulations, the plan administrator of a plan described in paragraph (4) shall, upon termination of the plan, provide the corporation information with respect to benefits of a missing participant if the plan transfers such benefits—

“(A) to the corporation, or

“(B) to an entity other than the corporation or a plan described in paragraph (4)(B)(ii).

“(3) **PAYMENT BY THE CORPORATION.**—If benefits of a missing participant were transferred to the corporation under paragraph (1), the corporation shall, upon location of the participant or beneficiary, pay to the participant or beneficiary the amount transferred (or the appropriate survivor benefit) either—

“(A) in a single sum (plus interest), or

“(B) in such other form as is specified in regulations of the corporation.

“(4) **PLANS DESCRIBED.**—A plan is described in this paragraph if—

“(A) the plan is a pension plan (within the meaning of section 3(2))—

“(i) to which the provisions of this section do not apply (without regard to this subsection), and

“(ii) which is not a plan described in paragraphs (2) through (11) of section 4021(b), and

“(B) at the time the assets are to be distributed upon termination, the plan—

“(i) has missing participants, and

“(ii) has not provided for the transfer of assets to pay the benefits of all missing participants to another pension plan (within the meaning of section 3(2)).

“(5) **CERTAIN PROVISIONS NOT TO APPLY.**—Subsections (a)(1) and (a)(3) shall not apply to a plan described in paragraph (4).”.



(b) **EFFECTIVE DATE.**—The amendment made by this section shall apply to distributions made after final regulations implementing subsections (c) and (d) of section 4050 of the Employee Retirement Income Security Act of 1974 (as added by subsection (a)), respectively, are prescribed.

**SEC. 682. REDUCED PBGC PREMIUM FOR NEW PLANS OF SMALL EMPLOYERS.**

(a) **IN GENERAL.**—Subparagraph (A) of section 4006(a)(3) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1306(a)(3)(A)) is amended—

(1) in clause (i), by inserting “other than a new single-employer plan (as defined in subparagraph (F)) maintained by a small employer (as so defined),” after “single-employer plan,”

(2) in clause (iii), by striking the period at the end and inserting “, and”, and

(3) by adding at the end the following new clause:

“(iv) in the case of a new single-employer plan (as defined in subparagraph (F)) maintained by a small employer (as so defined) for the plan year, \$5 for each individual who is a participant in such plan during the plan year.”

(b) **DEFINITION OF NEW SINGLE-EMPLOYER PLAN.**—Section 4006(a)(3) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1306(a)(3)) is amended by adding at the end the following new subparagraph:

“(F)(i) For purposes of this paragraph, a single-employer plan maintained by a contributing sponsor shall be treated as a new single-employer plan for each of its first 5 plan years if, during the 36-month period ending on the date of the adoption of such plan, the sponsor or any member of such sponsor’s controlled group (or any predecessor of either) did not establish or maintain a plan to which this title applies with respect to which benefits were accrued for substantially the same employees as are in the new single-employer plan.

“(ii)(I) For purposes of this paragraph, the term ‘small employer’ means an employer which on the first day of any plan year has, in aggregation with all members of the controlled group of such employer, 100 or fewer employees.

“(II) In the case of a plan maintained by two or more contributing sponsors that are not part of the same controlled group, the employees of all contributing sponsors and controlled groups of such sponsors shall be aggregated for purposes of determining whether any contributing sponsor is a small employer.”

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to plans established after December 31, 2001.

**SEC. 683. REDUCTION OF ADDITIONAL PBGC PREMIUM FOR NEW AND SMALL PLANS.**

(a) **NEW PLANS.**—Subparagraph (E) of section 4006(a)(3) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1306(a)(3)(E)) is amended by adding at the end the following new clause:

“(v) In the case of a new defined benefit plan, the amount determined under clause (ii) for any plan year shall be an amount equal to the product of the amount determined under clause (ii) and the applicable percentage. For purposes of this clause, the term ‘applicable percentage’ means—

“(I) 0 percent, for the first plan year.

“(II) 20 percent, for the second plan year.

“(III) 40 percent, for the third plan year.

“(IV) 60 percent, for the fourth plan year.

“(V) 80 percent, for the fifth plan year.

For purposes of this clause, a defined benefit plan (as defined in section 3(35)) maintained

by a contributing sponsor shall be treated as a new defined benefit plan for each of its first 5 plan years if, during the 36-month period ending on the date of the adoption of the plan, the sponsor and each member of any controlled group including the sponsor (or any predecessor of either) did not establish or maintain a plan to which this title applies with respect to which benefits were accrued for substantially the same employees as are in the new plan.”

(b) **SMALL PLANS.**—Paragraph (3) of section 4006(a) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1306(a)), as amended by section 682(b), is amended—

(1) by striking “The” in subparagraph (E)(i) and inserting “Except as provided in subparagraph (G), the”, and

(2) by inserting after subparagraph (F) the following new subparagraph:

“(G)(i) In the case of an employer who has 25 or fewer employees on the first day of the plan year, the additional premium determined under subparagraph (E) for each participant shall not exceed \$5 multiplied by the number of participants in the plan as of the close of the preceding plan year.

“(ii) For purposes of clause (i), whether an employer has 25 or fewer employees on the first day of the plan year is determined taking into consideration all of the employees of all members of the contributing sponsor’s controlled group. In the case of a plan maintained by two or more contributing sponsors, the employees of all contributing sponsors and their controlled groups shall be aggregated for purposes of determining whether the 25-or-fewer-employees limitation has been satisfied.”

(c) **EFFECTIVE DATES.**—

(1) **SUBSECTION (a).**—The amendments made by subsection (a) shall apply to plans established after December 31, 2001.

(2) **SUBSECTION (b).**—The amendments made by subsection (b) shall apply to plan years beginning after December 31, 2001.

**SEC. 684. AUTHORIZATION FOR PBGC TO PAY INTEREST ON PREMIUM OVERPAYMENT REFUNDS.**

(a) **IN GENERAL.**—Section 4007(b) of the Employment Retirement Income Security Act of 1974 (29 U.S.C. 1307(b)) is amended—

(1) by striking “(b)” and inserting “(b)(1)”, and

(2) by inserting at the end the following new paragraph:

“(2) The corporation is authorized to pay, subject to regulations prescribed by the corporation, interest on the amount of any overpayment of premium refunded to a designated payor. Interest under this paragraph shall be calculated at the same rate and in the same manner as interest is calculated for underpayments under paragraph (1).”

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to interest accruing for periods beginning not earlier than the date of the enactment of this Act.

**SEC. 685. SUBSTANTIAL OWNER BENEFITS IN TERMINATED PLANS.**

(a) **MODIFICATION OF PHASE-IN OF GUARANTEE.**—Section 4022(b)(5) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1322(b)(5)) is amended to read as follows:

“(5)(A) For purposes of this paragraph, the term ‘majority owner’ means an individual who, at any time during the 60-month period ending on the date the determination is being made—

“(i) owns the entire interest in an unincorporated trade or business,

“(ii) in the case of a partnership, is a partner who owns, directly or indirectly, 50 per-

cent or more of either the capital interest or the profits interest in such partnership, or

“(iii) in the case of a corporation, owns, directly or indirectly, 50 percent or more in value of either the voting stock of that corporation or all the stock of that corporation. For purposes of clause (iii), the constructive ownership rules of section 1563(e) of the Internal Revenue Code of 1986 shall apply (determined without regard to section 1563(e)(3)(C)).

“(B) In the case of a participant who is a majority owner, the amount of benefits guaranteed under this section shall equal the product of—

“(i) a fraction (not to exceed 1) the numerator of which is the number of years from the later of the effective date or the adoption date of the plan to the termination date, and the denominator of which is 10, and

“(ii) the amount of benefits that would be guaranteed under this section if the participant were not a majority owner.”

(b) **MODIFICATION OF ALLOCATION OF ASSETS.**—

(1) Section 4044(a)(4)(B) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1344(a)(4)(B)) is amended by striking “section 4022(b)(5)” and inserting “section 4022(b)(5)(B)”.

(2) Section 4044(b) of such Act (29 U.S.C. 1344(b)) is amended—

(A) by striking “(5)” in paragraph (2) and inserting “(4), (5)”, and

(B) by redesignating paragraphs (3) through (6) as paragraphs (4) through (7), respectively, and by inserting after paragraph (2) the following new paragraph:

“(3) If assets available for allocation under paragraph (4) of subsection (a) are insufficient to satisfy in full the benefits of all individuals who are described in that paragraph, the assets shall be allocated first to benefits described in subparagraph (A) of that paragraph. Any remaining assets shall then be allocated to benefits described in subparagraph (B) of that paragraph. If assets allocated to such subparagraph (B) are insufficient to satisfy in full the benefits described in that subparagraph, the assets shall be allocated pro rata among individuals on the basis of the present value (as of the termination date) of their respective benefits described in that subparagraph.”

(c) **CONFORMING AMENDMENTS.**—

(1) Section 4021 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1321) is amended—

(A) in subsection (b)(9), by striking “as defined in section 4022(b)(6)”, and

(B) by adding at the end the following new subsection:

“(d) For purposes of subsection (b)(9), the term ‘substantial owner’ means an individual who, at any time during the 60-month period ending on the date the determination is being made—

“(1) owns the entire interest in an unincorporated trade or business,

“(2) in the case of a partnership, is a partner who owns, directly or indirectly, more than 10 percent of either the capital interest or the profits interest in such partnership, or

“(3) in the case of a corporation, owns, directly or indirectly, more than 10 percent in value of either the voting stock of that corporation or all the stock of that corporation. For purposes of paragraph (3), the constructive ownership rules of section 1563(e) of the Internal Revenue Code of 1986 shall apply (determined without regard to section 1563(e)(3)(C)).”

(2) Section 4043(c)(7) of such Act (29 U.S.C. 1343(c)(7)) is amended by striking “section 4022(b)(6)” and inserting “section 4021(d)”.

## (d) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to plan terminations—

(A) under section 4041(c) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1341(c)) with respect to which notices of intent to terminate are provided under section 4041(a)(2) of such Act (29 U.S.C. 1341(a)(2)) after December 31, 2001, and

(B) under section 4042 of such Act (29 U.S.C. 1342) with respect to which proceedings are instituted by the corporation after such date.

(2) CONFORMING AMENDMENTS.—The amendments made by subsection (c) shall take effect on January 1, 2002.

**Subtitle H—Miscellaneous Provisions****SEC. 691. TAX TREATMENT AND INFORMATION REQUIREMENTS OF ALASKA NATIVE SETTLEMENT TRUSTS.**

(a) TREATMENT OF ALASKA NATIVE SETTLEMENT TRUSTS.—Subpart A of part I of subchapter J of chapter 1 (relating to general rules for taxation of trusts and estates) is amended by adding at the end the following new section:

**“SEC. 646. TAX TREATMENT OF ELECTING ALASKA NATIVE SETTLEMENT TRUSTS.**

“(a) IN GENERAL.—If an election under this section is in effect with respect to any Settlement Trust, the provisions of this section shall apply in determining the income tax treatment of the Settlement Trust and its beneficiaries with respect to the Settlement Trust.

“(b) TAXATION OF INCOME OF TRUST.—Except as provided in subsection (f)(1)(B)(ii)—

“(1) IN GENERAL.—There is hereby imposed on the taxable income of an electing Settlement Trust, other than its net capital gain, a tax at the lowest rate specified in section 1(c).

“(2) CAPITAL GAIN.—In the case of an electing Settlement Trust with a net capital gain for the taxable year, a tax is hereby imposed on such gain at the rate of tax which would apply to such gain if the taxpayer were subject to a tax on its other taxable income at only the lowest rate specified in section 1(c). Any such tax shall be in lieu of the income tax otherwise imposed by this chapter on such income or gain.

**“(c) ONE-TIME ELECTION.—**

“(1) IN GENERAL.—A Settlement Trust may elect to have the provisions of this section apply to the trust and its beneficiaries.

“(2) TIME AND METHOD OF ELECTION.—An election under paragraph (1) shall be made by the trustee of such trust—

“(A) on or before the due date (including extensions) for filing the Settlement Trust's return of tax for the first taxable year of such trust ending after the date of the enactment of this section, and

“(B) by attaching to such return of tax a statement specifically providing for such election.

“(3) PERIOD ELECTION IN EFFECT.—Except as provided in subsection (f), an election under this subsection—

“(A) shall apply to the first taxable year described in paragraph (2)(A) and all subsequent taxable years, and

“(B) may not be revoked once it is made.

**“(d) CONTRIBUTIONS TO TRUST.—**

“(1) BENEFICIARIES OF ELECTING TRUST NOT TAXED ON CONTRIBUTIONS.—In the case of an electing Settlement Trust, no amount shall be includible in the gross income of a beneficiary of such trust by reason of a contribution to such trust.

“(2) EARNINGS AND PROFITS.—The earnings and profits of the sponsoring Native Corpora-

tion shall not be reduced on account of any contribution to such Settlement Trust:

“(e) TAX TREATMENT OF DISTRIBUTIONS TO BENEFICIARIES.—Amounts distributed by an electing Settlement Trust during any taxable year shall be considered as having the following characteristics in the hands of the recipient beneficiary:

“(1) First, as amounts excludable from gross income for the taxable year to the extent of the taxable income of such trust for such taxable year (decreased by any income tax paid by the trust with respect to the income) plus any amount excluded from gross income of the trust under section 103.

“(2) Second, as amounts excludable from gross income to the extent of the amount described in paragraph (1) for all taxable years for which an election is in effect under subsection (c) with respect to the trust, and not previously taken into account under paragraph (1).

“(3) Third, as amounts distributed by the sponsoring Native Corporation with respect to its stock (within the meaning of section 301(a)) during such taxable year and taxable to the recipient beneficiary as amounts described in section 301(c)(1), to the extent of current or accumulated earnings and profits of the sponsoring Native Corporation as of the close of such taxable year after proper adjustment is made for all distributions made by the sponsoring Native Corporation during such taxable year.

“(4) Fourth, as amounts distributed by the trust in excess of the distributable net income of such trust for such taxable year.

Amounts distributed to which paragraph (3) applies shall not be treated as a corporate distribution subject to section 311(b), and for purposes of determining the amount of a distribution for purposes of paragraph (3) and the basis to the recipients, section 643(e) and not section 301(b) or (d) shall apply.

**“(f) SPECIAL RULES WHERE TRANSFER RESTRICTIONS MODIFIED.—**

“(1) TRANSFER OF BENEFICIAL INTERESTS.—If, at any time, a beneficial interest in an electing Settlement Trust may be disposed of to a person in a manner which would not be permitted by section 7(h) of the Alaska Native Claims Settlement Act (43 U.S.C. 1606(h)) if such interest were Settlement Common Stock—

“(A) no election may be made under subsection (c) with respect to such trust, and

“(B) if such an election is in effect as of such time—

“(i) such election shall cease to apply as of the first day of the taxable year in which such disposition is first permitted,

“(ii) the provisions of this section shall not apply to such trust for such taxable year and all taxable years thereafter, and

“(iii) the distributable net income of such trust shall be increased by the current or accumulated earnings and profits of the sponsoring Native Corporation as of the close of such taxable year after proper adjustment is made for all distributions made by the sponsoring Native Corporation during such taxable year.

In no event shall the increase under clause (iii) exceed the fair market value of the trust's assets as of the date the beneficial interest of the trust first becomes so disposable. The earnings and profits of the sponsoring Native Corporation shall be adjusted as of the last day of such taxable year by the amount of earnings and profits so included in the distributable net income of the trust.

**“(2) STOCK IN CORPORATION.—If—**

“(A) stock in the sponsoring Native Corporation may be disposed of to a person in a

manner which would not be permitted by section 7(h) of the Alaska Native Claims Settlement Act (43 U.S.C. 1606(h)) if such stock were Settlement Common Stock, and

“(B) at any time after such disposition of stock is first permitted, such corporation transfers assets to a Settlement Trust,

paragraph (1)(B) shall be applied to such trust on and after the date of the transfer in the same manner as if the trust permitted dispositions of beneficial interests in the trust in a manner not permitted by such section 7(h).

“(3) CERTAIN DISTRIBUTIONS.—For purposes of this section, the surrender of an interest in a Native Corporation or an electing Settlement Trust in order to accomplish the whole or partial redemption of the interest of a shareholder or beneficiary in such corporation or trust, or to accomplish the whole or partial liquidation of such corporation or trust, shall be deemed to be a transfer permitted by section 7(h) of the Alaska Native Claims Settlement Act.

“(g) TAXABLE INCOME.—For purposes of this title, the taxable income of an electing Settlement Trust shall be determined under section 641(b) without regard to any deduction under section 651 or 661.

“(h) DEFINITIONS.—For purposes of this section—

“(1) ELECTING SETTLEMENT TRUST.—The term ‘electing Settlement Trust’ means a Settlement Trust which has made the election, effective for a taxable year, described in subsection (c).

“(2) NATIVE CORPORATION.—The term ‘Native Corporation’ has the meaning given such term by section 3(m) of the Alaska Native Claims Settlement Act (43 U.S.C. 1602(m)).

“(3) SETTLEMENT COMMON STOCK.—The term ‘Settlement Common Stock’ has the meaning given such term by section 3(p) of the Alaska Native Claims Settlement Act (43 U.S.C. 1602(p)).

“(4) SETTLEMENT TRUST.—The term ‘Settlement Trust’ means a trust that constitutes a settlement trust under section 3(t) of the Alaska Native Claims Settlement Act (43 U.S.C. 1602(t)).

“(5) SPONSORING NATIVE CORPORATION.—The term ‘sponsoring Native Corporation’ means the Native Corporation which transfers assets to an electing Settlement Trust.

“(i) SPECIAL LOSS DISALLOWANCE RULE.—Any loss that would otherwise be recognized by a shareholder upon a disposition of a share of stock of a sponsoring Native Corporation shall be reduced (but not below zero) by the per share loss adjustment factor. The per share loss adjustment factor shall be the aggregate of all contributions to all electing Settlement Trusts sponsored by such Native Corporation made on or after the first day each trust is treated as an electing Settlement Trust expressed on a per share basis and determined as of the day of each such contribution.

**“(j) CROSS REFERENCE.—**

**“For information required with respect to electing Settlement Trusts and sponsoring Native Corporations, see section 6039H.”**

(b) REPORTING.—Subpart A of part III of subchapter A of chapter 61 of subtitle F (relating to information concerning persons subject to special provisions) is amended by inserting after section 6039G the following new section:

**“SEC. 6039H. INFORMATION WITH RESPECT TO ALASKA NATIVE SETTLEMENT TRUSTS AND SPONSORING NATIVE CORPORATIONS.**

“(a) REQUIREMENT.—The fiduciary of an electing Settlement Trust (as defined in section 646(h)(1)) shall include with the return of income of the trust a statement containing the information required under subsection (c).

“(b) APPLICATION WITH OTHER REQUIREMENTS.—The filing of any statement under this section shall be in lieu of the reporting requirements under section 6034A to furnish any statement to a beneficiary regarding amounts distributed to such beneficiary (and such other reporting rules as the Secretary deems appropriate).

“(c) REQUIRED INFORMATION.—The information required under this subsection shall include—

“(1) the amount of distributions made during the taxable year to each beneficiary,

“(2) the treatment of such distribution under the applicable provision of section 646, including the amount that is excludable from the recipient beneficiary's gross income under section 646, and

“(3) the amount (if any) of any distribution during such year that is deemed to have been made by the sponsoring Native Corporation (as defined in section 646(h)(5)).

“(d) SPONSORING NATIVE CORPORATION.—

“(1) IN GENERAL.—The electing Settlement Trust shall, on or before the date on which the statement under subsection (a) is required to be filed, furnish such statement to the sponsoring Native Corporation (as so defined).

“(2) DISTRIBUTEES.—The sponsoring Native Corporation shall furnish each recipient of a distribution described in section 646(e)(3) a statement containing the amount deemed to have been distributed to such recipient by such corporation for the taxable year.”.

(c) CLERICAL AMENDMENT.—

(1) The table of sections for subpart A of part I of subchapter J of chapter 1 of such Code is amended by adding at the end the following new item:

“Sec. 646. Tax treatment of electing Alaska Native Settlement Trusts.”.

(2) The table of sections for subpart A of part III of subchapter A of chapter 61 of subtitle F of such Code is amended by inserting after the item relating to section 6039G the following new item:

“Sec. 6039H. Information with respect to Alaska Native Settlement Trusts and sponsoring Native Corporations.”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years ending after the date of the enactment of this Act and to contributions made to electing Settlement Trusts for such year or any subsequent year.

**Subtitle I—Compliance With Congressional Budget Act**

**SEC. 695. SUNSET OF PROVISIONS OF TITLE.**

All provisions of, and amendments made by, this title which are in effect on September 30, 2011, shall cease to apply as of the close of September 30, 2011.

**TITLE VII—ALTERNATIVE MINIMUM TAX**  
**Subtitle A—In General**

**SEC. 701. INCREASE IN ALTERNATIVE MINIMUM TAX EXEMPTION.**

(a) IN GENERAL.—

(1) Subparagraph (A) of section 55(d)(1) (relating to exemption amount for taxpayers other than corporations) is amended by

striking “\$45,000” and inserting “\$45,000 (\$49,000 in the case of taxable years beginning in 2001, 2002, 2003, 2004, 2005, and 2006)”.

(2) Subparagraph (B) of section 55(d)(1) (relating to exemption amount for taxpayers other than corporations) is amended by striking “\$33,750” and inserting “\$33,750 (\$35,750 in the case of taxable years beginning in 2001, 2002, 2003, 2004, 2005, and 2006)”.

(b) CONFORMING AMENDMENTS.—

(1) Paragraph (1) of section 55(d) is amended by striking “and” at the end of subparagraph (B), by striking subparagraph (C), and by inserting after subparagraph (B) the following new subparagraphs:

“(C) 50 percent of the dollar amount applicable under paragraph (1)(A) in the case of a married individual who files a separate return, and

“(D) \$22,500 in the case of an estate or trust.”.

(2) Subparagraph (C) of section 55(d)(3) is amended by striking “paragraph (1)(C)” and inserting “subparagraph (C) or (D) of paragraph (1)”.

(3) The last sentence of section 55(d)(3) is amended—

(A) by striking “paragraph (1)(C)(i)” and inserting “paragraph (1)(C)”;

(B) by striking “\$165,000 or (ii) \$22,500” and inserting “the minimum amount of such income (as so determined) for which the exemption amount under paragraph (1)(C) is zero, or (ii) such exemption amount (determined without regard to this paragraph)”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

**Subtitle B—Compliance With Congressional Budget Act**

**SEC. 711. SUNSET OF PROVISIONS OF TITLE.**

All provisions of, and amendments made by, this title which are in effect on September 30, 2011, shall cease to apply as of the close of September 30, 2011.

**TITLE VIII—OTHER PROVISIONS**

**Subtitle A—In General**

**SEC. 801. TIME FOR PAYMENT OF CORPORATE ESTIMATED TAXES.**

Notwithstanding section 6655 of the Internal Revenue Code of 1986—

(1) 70 percent of the amount of any required installment of corporate estimated tax which is otherwise due in September 2001 shall not be due until October 1, 2001; and

(2) 20 percent of the amount of any required installment of corporate estimated tax which is otherwise due in September 2004 shall not be due until October 1, 2004.

**SEC. 802. EXPANSION OF AUTHORITY TO POSTPONE CERTAIN TAX-RELATED DEADLINES BY REASON OF PRESIDENTIALLY DECLARED DISASTER.**

(a) IN GENERAL.—Section 7508A (relating to authority to postpone certain tax-related deadlines by reason of presidentially declared disaster) is amended by adding at the end the following new subsection:

“(c) DUTIES OF DISASTER RESPONSE TEAM.—The Secretary shall establish as a permanent office in the national office of the Internal Revenue Service a disaster response team which, in coordination with the Federal Emergency Management Agency, shall assist taxpayers in clarifying and resolving Federal tax matters associated with or resulting from any Presidentially declared disaster (as so defined). One of the duties of the disaster response team shall be to extend in appropriate cases the 90-day period described in subsection (a) by not more than 30 days.”.

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect on the date of enactment of this Act.

**Subtitle B—Compliance With Congressional Budget Act**

**SEC. 811. SUNSET OF PROVISIONS OF TITLE.**

All provisions of, and amendments made by, this title which are in effect on September 30, 2011, shall cease to apply as of the close of September 30, 2011.

**SA 651.** Mrs. LANDRIEU (for herself and Mr. CRAIG) submitted an amendment intended to be proposed by her to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

On page 12, strike line 1 and all that follows through line 12.

On page 18, between lines 14 and 15, insert the following:

**SEC. 202. EXPANSION OF ADOPTION CREDIT AND ADOPTION ASSISTANCE PROGRAMS.**

(a) IN GENERAL.—

(1) ADOPTION CREDIT.—Section 23(a)(1) (relating to allowance of credit) is amended to read as follows:

“(1) IN GENERAL.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter—

“(A) in the case of an adoption of a child other than a child with special needs, the amount of the qualified adoption expenses paid or incurred by the taxpayer, and

“(B) in the case of an adoption of a child with special needs, \$10,000.”.

(2) ADOPTION ASSISTANCE PROGRAMS.—Section 137(a) (relating to adoption assistance programs) is amended to read as follows:

“(a) IN GENERAL.—Gross income of an employee does not include amounts paid or expenses incurred by the employer for adoption expenses in connection with the adoption of a child by an employee if such amounts are furnished pursuant to an adoption assistance program. The amount of the exclusion shall be—

“(1) in the case of an adoption of a child other than a child with special needs, the amount of the qualified adoption expenses paid or incurred by the taxpayer, and

“(2) in the case of an adoption of a child with special needs, \$10,000.”.

(b) DOLLAR LIMITATIONS.—

(1) DOLLAR AMOUNT OF ALLOWED EXPENSES.—

(A) ADOPTION EXPENSES.—Section 23(b)(1) (relating to allowance of credit) is amended—

(i) by striking “\$5,000” and inserting “\$10,000”,

(ii) by striking “(\$6,000, in the case of a child with special needs)”, and

(iii) by striking “subsection (a)” and inserting “subsection (a)(1)(A)”.

(B) ADOPTION ASSISTANCE PROGRAMS.—Section 137(b)(1) (relating to dollar limitations for adoption assistance programs) is amended—

(i) by striking “\$5,000” and inserting “\$10,000”, and

(ii) by striking “(\$6,000, in the case of a child with special needs)”, and

(iii) by striking “subsection (a)” and inserting “subsection (a)(1)”.

(2) PHASE-OUT LIMITATION.—

(A) ADOPTION EXPENSES.—Clause (i) of section 23(b)(2)(A) (relating to income limitation) is amended by striking “\$75,000” and inserting “\$150,000”.

(B) ADOPTION ASSISTANCE PROGRAMS.—Section 137(b)(2)(A) (relating to income limitation) is amended by striking “\$75,000” and inserting “\$150,000”.

(c) YEAR CREDIT ALLOWED.—Section 23(a)(2) (relating to year credit allowed) is amended by adding at the end the following new flush sentence:

“In the case of the adoption of a child with special needs, the credit allowed under paragraph (1) shall be allowed for the taxable year in which the adoption becomes final.”.

(d) REPEAL OF SUNSET PROVISIONS.—

(1) CHILDREN WITHOUT SPECIAL NEEDS.—Paragraph (2) of section 23(d) (relating to definition of eligible child) is amended to read as follows:

“(2) ELIGIBLE CHILD.—The term ‘eligible child’ means any individual who—

“(A) has not attained age 18, or

“(B) is physically or mentally incapable of caring for himself.”.

(2) ADOPTION ASSISTANCE PROGRAMS.—Section 137 (relating to adoption assistance programs) is amended by striking subsection (f).

(e) ADJUSTMENT OF DOLLAR AND INCOME LIMITATIONS FOR INFLATION.—

(1) ADOPTION CREDIT.—Section 23 (relating to adoption expenses) is amended by redesignating subsection (h) as subsection (i) and by inserting after subsection (g) the following new subsection:

“(h) ADJUSTMENTS FOR INFLATION.—In the case of a taxable year beginning after December 31, 2002, each of the dollar amounts in subsection (a)(1)(B) and paragraphs (1) and (2)(A)(i) of subsection (b) shall be increased by an amount equal to—

“(1) such dollar amount, multiplied by

“(2) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting ‘calendar year 2001’ for ‘calendar year 1992’ in subparagraph (B) thereof.”.

(2) ADOPTION ASSISTANCE PROGRAMS.—Section 137 (relating to adoption assistance programs), as amended by subsection (d), is amended by adding at the end the following new subsection:

“(f) ADJUSTMENTS FOR INFLATION.—In the case of a taxable year beginning after December 31, 2002, each of the dollar amounts in subsection (a)(2) and paragraphs (1) and (2)(A) of subsection (b) shall be increased by an amount equal to—

“(1) such dollar amount, multiplied by

“(2) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting ‘calendar year 2001’ for ‘calendar year 1992’ in subparagraph (B) thereof.”.

(f) LIMITATION BASED ON AMOUNT OF TAX.—

(1) IN GENERAL.—Section 23(c) (relating to carryforwards of unused credit) is amended by striking “the limitation imposed” and all that follows through “1400C)” and inserting “the applicable tax limitation”.

(2) APPLICABLE TAX LIMITATION.—Section 23(d) (relating to definitions) is amended by adding at the end the following new paragraph:

“(4) APPLICABLE TAX LIMITATION.—The term ‘applicable tax limitation’ means the sum of—

“(A) the taxpayer’s regular tax liability for the taxable year, reduced (but not below zero) by the sum of the credits allowed by sections 21, 22, 24 (other than the amount of the increase under subsection (d) thereof), 25, and 25A, and

“(B) the tax imposed by section 55 for such taxable year.”.

(3) CONFORMING AMENDMENTS.—

(A) Section 26(a) (relating to limitation based on amount of tax) is amended by inserting “(other than section 23)” after “allowed by this subpart”.

(B) Section 53(b)(1) (relating to minimum tax credit) is amended by inserting “reduced by the aggregate amount taken into account under section 23(d)(3)(B) for all such prior taxable years,” after “1986.”.

(g) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

On page 29, strike line 16 and all that follows through page 32, line 2.

**SA 652.** Mr. LEAHY (for himself and Mr. BENNETT) submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

On page 314, after line 21, add the following:

**SEC. 803. CHARITABLE CONTRIBUTIONS OF CERTAIN ITEMS CREATED BY THE TAXPAYER.**

(a) IN GENERAL.—Subsection (e) of section 170 (relating to certain contributions of ordinary income and capital gain property) is amended by adding at the end the following new paragraph:

“(7) SPECIAL RULE FOR CERTAIN CONTRIBUTIONS OF LITERARY, MUSICAL, OR ARTISTIC COMPOSITIONS.—

“(A) IN GENERAL.—In the case of a qualified artistic charitable contribution—

“(i) the amount of such contribution shall be the fair market value of the property contributed (determined at the time of such contribution), and

“(ii) no reduction in the amount of such contribution shall be made under paragraph (1).

“(B) QUALIFIED ARTISTIC CHARITABLE CONTRIBUTION.—For purposes of this paragraph, the term ‘qualified artistic charitable contribution’ means a charitable contribution of any literary, musical, artistic, or scholarly composition, or similar property, or the copyright thereon (or both), but only if—

“(i) such property was created by the personal efforts of the taxpayer making such contribution no less than 18 months prior to such contribution,

“(ii) the taxpayer—

“(I) has received a qualified appraisal of the fair market value of such property in accordance with the regulations under this section, and

“(II) attaches to the taxpayer’s income tax return for the taxable year in which such contribution was made a copy of such appraisal,

“(iii) the donee is an organization described in subsection (b)(1)(A),

“(iv) the use of such property by the donee is related to the purpose or function constituting the basis for the donee’s exemption under section 501 (or, in the case of a governmental unit, to any purpose or function described under subsection (c)).

“(v) the taxpayer receives from the donee a written statement representing that the donee’s use of the property will be in accordance with the provisions of clause (iv), and

“(vi) the written appraisal referred to in clause (ii) includes evidence of the extent (if any) to which property created by the personal efforts of the taxpayer and of the same type as the donated property is or has been—

“(I) owned, maintained, and displayed by organizations described in subsection (b)(1)(A), and

“(II) sold to or exchanged by persons other than the taxpayer, donee, or any related person (as defined in section 465(b)(3)(C)).

“(C) MAXIMUM DOLLAR LIMITATION; NO CARRYOVER OF INCREASED DEDUCTION.—The increase in the deduction under this section by reason of this paragraph for any taxable year—

“(i) shall not exceed the artistic adjusted gross income of the taxpayer for such taxable year, and

“(ii) shall not be taken into account in determining the amount which may be carried from such taxable year under subsection (d).

“(D) ARTISTIC ADJUSTED GROSS INCOME.—For purposes of this paragraph, the term ‘artistic adjusted gross income’ means that portion of the adjusted gross income of the taxpayer for the taxable year attributable to—

“(i) income from the sale or use of property created by the personal efforts of the taxpayer which is of the same type as the donated property, and

“(ii) income from teaching, lecturing, performing, or similar activity with respect to property described in clause (i).

“(E) PARAGRAPH NOT TO APPLY TO CERTAIN CONTRIBUTIONS.—Subparagraph (A) shall not apply to any charitable contribution of any letter, memorandum, or similar property which was written, prepared, or produced by or for an individual while the individual is an officer or employee of any person (including any government agency or instrumentality) unless such letter, memorandum, or similar property is entirely personal.

“(F) COPYRIGHT TREATED AS SEPARATE PROPERTY FOR PARTIAL INTEREST RULE.—In the case of a qualified artistic charitable contribution, the tangible literary, musical, artistic, or scholarly composition, or similar property and the copyright on such work shall be treated as separate properties for purposes of this paragraph and subsection (f)(3).”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to contributions made after the date of the enactment of this Act in taxable years ending after such date.

**SA 653.** Mr. KERRY submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

On page 9, between lines 11 and 12, strike the table and insert the following:

“In the case of taxable years beginning during calendar year:	The corresponding percentages shall be substituted for the following percentages:			
	28%	31%	36%	39.6%
2002, 2003, and 2004.	27%	30%	35%	39%
2005 and 2006	26%	29%	34%	38.6%
2007, 2008, and 2009.	25%	28%	33%	37.6%
2010 and thereafter.	25%	28%	33%	36%

Strike section 701 and insert:

**SEC. 701. ALTERNATIVE MINIMUM TAX EXEMPTION FOR CERTAIN INDIVIDUAL TAXPAYERS.**

(a) EXEMPTION.—Section 55 (relating to imposition of alternative minimum tax) is amended by adding at the end the following:

“(f) EXEMPTION FOR CERTAIN INDIVIDUALS.—

“(1) REDUCTION IN TENTATIVE MINIMUM TAX.—

“(A) IN GENERAL.—In the case of an individual, the tentative minimum tax for any

taxable year (determined without regard to this subsection) shall be reduced by the applicable percentage.

“(B) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A), the applicable percentage with respect to a taxpayer is 100 percent reduced (but not below zero) by 10 percentage points for each \$1,000 (or fraction thereof) by which the taxpayer’s adjusted gross income for the taxable year exceeds \$100,000.

“(2) PROSPECTIVE APPLICATION IF SUBSECTION CEASES TO APPLY.—If paragraph (1) applies to a taxpayer for any taxable year and then ceases to apply to a subsequent taxable year, the rules of paragraphs (2) through (5) of subsection (e) shall apply to the taxpayer to the extent such rules are applicable to individuals.”

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after December 31, 2001.

**SA 654.** Mr. CONRAD (for himself and Mr. KENNEDY) proposed an amendment to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; as follows:

On page 9, strike all after line 11 and before line 15 and insert the following:

“In the case of taxable years beginning during calendar year:	The corresponding percentages shall be substituted for the following percentages:			
	28%	31%	36%	39.6%
2002, 2003, and 2004.	27%	30%	36%	39.6%
2005 and 2006	26%	29%	36%	39.6%
2007 and 2008	25%	28%	36%	39.6%
2009 .....	25%	28%	35%	38%
2010 and thereafter.	25%	28%	33%	36%

“(3) ADJUSTMENT OF TABLES.—The Secretary shall adjust the tables prescribed under subsection (f) to carry out this subsection, and in any fiscal year in which such adjustment results in an on-budget surplus smaller than the medicare HI trust fund surplus, the Secretary shall further adjust such tables to ensure that in such fiscal year the on-budget surplus is not less than such account.”

Beginning on page 19, strike line 8 and all that follows through page 20, line 12, and insert the following:

(1) by striking “\$5,000” in subparagraph (A) and inserting “twice the dollar amount in effect under subparagraph (C) for the taxable year”;

(2) by adding “or” at the end of subparagraph (B);

(3) by striking “in the case of” and all that follows in subparagraph (C) and inserting “in any other case.”; and

(4) by striking subparagraph (D).

(b) TECHNICAL AMENDMENTS.—

(1) Subparagraph (B) of section 1(f)(6), as amended by section 103(b), is amended by striking “(other than with” and all that follows through “shall be applied” and inserting “(other than with respect to sections 63(c)(4) and 151(d)(3)(A)) shall be applied”.

(2) Paragraph (4) of section 63(c) is amended by adding at the end the following flush sentence:

“The preceding sentence shall not apply to the amount referred to in paragraph (2)(A).”.

(c) EFFECTIVE DATE.—The amendments made by

Beginning on page 20, strike line 21 and all that follows through page 22, line 4, and insert the following:

“(8) ELIMINATION OF MARRIAGE PENALTY IN 15-PERCENT BRACKET.—

“(A) IN GENERAL.—With respect to taxable years beginning after December 31, 2001, in prescribing the tables under paragraph (1)—

“(i) the maximum taxable income in the 15-percent rate bracket in the table contained in subsection (a) (and the minimum taxable income in the next higher taxable income bracket in such table) shall be twice the maximum taxable income in the 15-percent rate bracket in the table contained in subsection (c) (after any other adjustment under this subsection), and

“(ii) the comparable taxable income amounts in the table contained in subsection (d) shall be ½ of the amounts determined under clause (i).

“(B) ROUNDING.—If any amount determined under subparagraph (A)(i) is not a multiple of \$50, such amount shall be rounded to the next lowest multiple of \$50.”.

**SA 655.** Mr. SANTORUM submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

At the end add the following:

#### **TITLE —SAVINGS OPPORTUNITY AND CHARITABLE GIVING**

##### **SEC. 01. SHORT TITLE; TABLE OF CONTENTS.**

(a) SHORT TITLE.—This title may be cited as the “Savings Opportunity and Charitable Giving Act of 2001”.

(b) TABLE OF CONTENTS.—The table of contents is as follows:

#### **TITLE —SAVINGS OPPORTUNITY AND CHARITABLE GIVING**

Sec. 01. Short title; table of contents.

##### **Subtitle A—Individual Development Accounts**

Sec. 11. Findings and purposes.

Sec. 12. Definitions.

Sec. 13. Structure and administration of qualified individual development account programs.

Sec. 14. Procedures for opening and maintaining an Individual Development Account and qualifying for matching funds.

Sec. 15. Deposits by qualified individual development account programs.

Sec. 16. Withdrawal procedures.

Sec. 17. Certification and termination of qualified individual development account programs.

Sec. 18. Reporting, monitoring, and evaluation.

Sec. 19. Authorization of appropriations.

Sec. 20. Account funds disregarded for purposes of certain means-tested Federal programs.

Sec. 21. Matching funds for Individual Development Accounts provided through a tax credit for qualified financial institutions.

##### **Subtitle B—Charitable Giving Incentives Package**

Sec. 31. Deduction for portion of charitable contributions to be allowed to individuals who do not itemize deductions.

Sec. 32. Tax-free distributions from individual retirement accounts for charitable purposes.

Sec. 33. Charitable deduction for contributions of food inventory.

##### **Subtitle C—Compliance With Congressional Budget Act**

Sec. 41. Sunset of provisions of title.

Sec. 42. Restoration of provisions of title.

##### **Subtitle A—Individual Development Accounts**

##### **SEC. 11. FINDINGS AND PURPOSES.**

(a) FINDINGS.—Congress makes the following findings:

(1) For the vast majority of households the pathway to the economic mainstream and financial security is not through spending and consumption, but through saving, investing, and the accumulation of assets. Assets promote economic household stability, decrease economic strain on households, promote educational attainment, decrease marital dissolution, decrease the risk of intergenerational poverty transmission, increase health and satisfaction among adults, increase property values, decrease residential mobility, increase property maintenance, and increase local civic involvement.

(2) One-third of all Americans have no assets available for investment and another 20 percent have only negligible assets. Assets are distributed far more unevenly than income. Whereas the top 20 percent of American households earn over 43 percent of all income, such households hold over 68 percent of net worth and almost 87 percent of net financial assets. Moreover, asset poverty and wealth gaps are even higher among minority households by a ratio of more than 11 to 1. Up to 20 percent of all households are unbanked and do not have access to the basic financial tools that make asset accumulation possible.

(3) Public policy has contributed to large asset gaps in the United States. Traditional public assistance programs based on income and consumption have rarely been successful in supporting the transition to economic self-sufficiency. Tax policy, through \$288,000,000,000 in annual tax incentives, has helped lay the foundation for the great American middle class, but only for some citizens. Fully 90 percent of such current tax benefits accrue to households earning more than \$50,000 per year, roughly half of all American households. Lacking an income tax liability, low-income working families cannot take advantage of asset development incentives. Moreover, low-income families seeking public assistance must first spend down their assets and face severe asset limits once on assistance.

(4) Individual Development Accounts, or IDAs, have proven to be successful in helping low-income working families save and accumulate assets. In one national demonstration project, 2,378 low-income families saved a total of \$834,442 in one year which generated another \$1,644,510 in private matching funds. Thus far, IDA savings have been used to purchase long-term, high-return assets, including homes, post-secondary education and training, and small businesses. Presently, about 10,000 IDAs are in existence in the United States, held by a very small fraction of the at least 70 million Americans who are asset poor.

(5) Therefore, the Federal Government should support, through the tax code, a significant expansion of Individual Development Accounts so that millions of low-income working families across the country can save, accumulate assets, and move their lives forward, and thus make positive contributions to the economic and social well-being of the United States, as well as to its future.

(b) PURPOSES.—The purposes of this subtitle are to provide for the establishment of individual development account programs that will—

(1) provide individuals and families with limited means an opportunity to accumulate assets and to enter the financial mainstream;

(2) promote education, homeownership, and the development of small businesses;

(3) stabilize families and build communities; and

(4) support continued United States economic expansion.

#### SEC. 12. DEFINITIONS.

As used in this subtitle:

(1) ELIGIBLE INDIVIDUAL.—

(A) IN GENERAL.—The term “eligible individual” means an individual who—

(i) has attained the age of 18 years but not the age of 61;

(ii) is a citizen or legal resident of the United States;

(iii) is not a student (as defined in section 151(c)(4)); and

(iv) is a taxpayer the adjusted gross income of whom for the preceding taxable year does not exceed—

(I) \$20,000, in the case of a taxpayer described in section 1(c) or 1(d) of the Internal Revenue Code of 1986;

(II) \$25,000, in the case of a taxpayer described in section 1(b) of such Code; and

(III) \$40,000, in the case of a taxpayer described in section 1(a) of such Code.

(B) INFLATION ADJUSTMENT.—

(i) IN GENERAL.—In the case of any taxable year beginning after 2002, each dollar amount referred to in subparagraph (A)(iv) shall be increased by an amount equal to—

(I) such dollar amount, multiplied by

(II) the cost-of-living adjustment determined under section 1(f)(3) of the Internal Revenue Code of 1986 for the calendar year in which the taxable year begins, by substituting “2001” for “1992”.

(ii) ROUNDING.—If any amount as adjusted under clause (i) is not a multiple of \$50, such amount shall be rounded to the nearest multiple of \$50.

(2) INDIVIDUAL DEVELOPMENT ACCOUNT.—The term “Individual Development Account” means an account established for an eligible individual as part of a qualified individual development account program, but only if the written governing instrument creating the account meets the following requirements:

(A) The sole owner of the account is the individual for whom the account was established.

(B) No contribution will be accepted unless it is in cash.

(C) The holder of the account is a qualified financial institution.

(D) The assets of the account will not be commingled with other property except in a common trust fund or common investment fund.

(E) Except as provided in section 16(b), any amount in the account may be paid out only for the purpose of paying the qualified expenses of the account owner.

(3) PARALLEL ACCOUNT.—The term “parallel account” means a separate, parallel individual or pooled account for all matching funds and earnings dedicated to an Individual Development Account owner as part of a qualified individual development account program, the sole owner of which is a qualified financial institution, a qualified nonprofit organization, or an Indian tribe.

(4) QUALIFIED FINANCIAL INSTITUTION.—

(A) IN GENERAL.—The term “qualified financial institution” means any person au-

thorized to be a trustee of any individual retirement account under section 408(a)(2) of the Internal Revenue Code of 1986.

(B) RULE OF CONSTRUCTION.—Nothing in this paragraph shall be construed as preventing a person described in subparagraph (A) from collaborating with 1 or more contractual affiliates, qualified nonprofit organizations, or Indian tribes to carry out an individual development account program established under section 13.

(5) QUALIFIED NONPROFIT ORGANIZATION.—The term “qualified nonprofit organization” means—

(A) any organization described in section 501(c)(3) of the Internal Revenue Code of 1986 and exempt from taxation under section 501(a) of such Code;

(B) any community development financial institution certified by the Community Development Financial Institution Fund; or

(C) any credit union chartered under Federal or State law.

(6) INDIAN TRIBE.—The term “Indian tribe” means any Indian tribe as defined in section 4(12) of the Native American Housing Assistance and Self-Determination Act of 1996 (25 U.S.C. 4103(12)), and includes any tribal subsidiary, subdivision, or other wholly owned tribal entity.

(7) QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAM.—The term “qualified individual development account program” means a program established under section 13 which—

(A) Individual Development Accounts and parallel accounts are held by a qualified financial institution; and

(B) additional activities determined by the Secretary as necessary to responsibly develop and administer accounts, including recruiting, providing financial education and other training to account owners, and regular program monitoring, are carried out by the qualified financial institution, a qualified nonprofit organization, or an Indian tribe.

(8) QUALIFIED EXPENSE DISTRIBUTION.—

(A) IN GENERAL.—The term “qualified expense distribution” means any amount paid (including through electronic payments) or distributed out of an Individual Development Account and a parallel account established for an eligible individual if such amount—

(i) is used exclusively to pay the qualified expenses of the Individual Development Account owner or such owner's spouse or dependents, as approved by the qualified financial institution, qualified nonprofit organization, or Indian tribe;

(ii) is paid by the qualified financial institution, qualified nonprofit organization, or Indian tribe—

(I) except as otherwise provided in this clause, directly to the unrelated third party to whom the amount is due;

(II) in the case of distributions for working capital under a qualified business plan (as defined in subparagraph (B)(iv)(IV)), directly to the account owner;

(III) in the case of any qualified rollover, directly to another Individual Development Account and parallel account; or

(IV) in the case of a qualified final distribution, directly to the spouse, dependent, or other named beneficiary of the deceased account owner; and

(iii) is paid after the account owner has completed a financial education course as required under section 14(b).

(B) QUALIFIED EXPENSES.—

(i) IN GENERAL.—The term “qualified expenses” means any of the following:

(I) Qualified higher education expenses.

(II) Qualified first-time homebuyer costs.

(III) Qualified business capitalization or expansion costs.

(IV) Qualified rollovers.

(V) Qualified final distribution.

(ii) QUALIFIED HIGHER EDUCATION EXPENSES.—

(I) IN GENERAL.—The term “qualified higher education expenses” has the meaning given such term by section 72(t)(7) of the Internal Revenue Code of 1986, determined by treating postsecondary vocational educational schools as eligible educational institutions.

(II) POSTSECONDARY VOCATIONAL EDUCATION SCHOOL.—The term “postsecondary vocational educational school” means an area vocational education school (as defined in subparagraph (C) or (D) of section 521(4) of the Carl D. Perkins Vocational and Applied Technology Education Act (20 U.S.C. 2471(4))) which is in any State (as defined in section 521(33) of such Act), as such sections are in effect on the date of the enactment of this Act.

(III) COORDINATION WITH OTHER BENEFITS.—The amount of qualified higher education expenses for any taxable year shall be reduced as provided in section 25A(g)(2) of such Code and may not be taken into account for purposes of determining qualified higher education expenses under section 135 or 530 of the Internal Revenue Code of 1986.

(iii) QUALIFIED FIRST-TIME HOMEBUYER COSTS.—The term “qualified first-time homebuyer costs” means qualified acquisition costs (as defined in section 72(t)(8) of such Code without regard to subparagraph (B) thereof) with respect to a principal residence (within the meaning of section 121 of such Code) for a qualified first-time homebuyer (as defined in section 72(t)(8) of such Code).

(iv) QUALIFIED BUSINESS CAPITALIZATION OR EXPANSION COSTS.—

(I) IN GENERAL.—The term “qualified business capitalization or expansion costs” means qualified expenditures for the capitalization or expansion of a qualified business pursuant to a qualified business plan.

(II) QUALIFIED EXPENDITURES.—The term “qualified expenditures” means expenditures included in a qualified business plan, including capital, plant, equipment, working capital, inventory expenses, attorney and accounting fees, and other costs normally associated with starting or expanding a business.

(III) QUALIFIED BUSINESS.—The term “qualified business” means any business that does not contravene any law.

(IV) QUALIFIED BUSINESS PLAN.—The term “qualified business plan” means a business plan which has been approved by the qualified financial institution, qualified nonprofit organization, or Indian tribe and which meets such requirements as the Secretary may specify.

(v) QUALIFIED ROLLOVERS.—The term “qualified rollover” means the complete distribution of the amounts in an Individual Development Account and parallel account to another Individual Development Account and parallel account established in another qualified financial institution, qualified nonprofit organization, or Indian tribe for the benefit of the account owner.

(vi) QUALIFIED FINAL DISTRIBUTION.—The term “qualified final distribution” means, in the case of a deceased account owner, the complete distribution of the amounts in an Individual Development Account and parallel account directly to the spouse, any dependent, or other named beneficiary of the deceased.

(9) SECRETARY.—The term “Secretary” means the Secretary of the Treasury.



**SEC. 13. STRUCTURE AND ADMINISTRATION OF QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAMS.**

(a) **ESTABLISHMENT OF QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAMS.**—Any qualified financial institution, qualified nonprofit organization, or Indian tribe may establish 1 or more qualified individual development account programs which meet the requirements of this subtitle.

(b) **BASIC PROGRAM STRUCTURE.**—

(1) **IN GENERAL.**—All qualified individual development account programs shall consist of the following 2 components:

(A) An Individual Development Account to which an eligible individual may contribute cash in accordance with section 14.

(B) A parallel account to which all matching funds shall be deposited in accordance with section 15.

(2) **TAILORED IDA PROGRAMS.**—A qualified financial institution, a qualified nonprofit organization, or an Indian tribe may tailor its qualified individual development account program to allow matching funds to be spent on 1 or more of the categories of qualified expenses.

(c) **TAX TREATMENT OF PARALLEL ACCOUNTS.**—Any account described in subparagraph (B) of subsection (b)(1) is exempt from taxation under the Internal Revenue Code of 1986.

**SEC. 14. PROCEDURES FOR OPENING AND MAINTAINING AN INDIVIDUAL DEVELOPMENT ACCOUNT AND QUALIFYING FOR MATCHING FUNDS.**

(a) **OPENING AN ACCOUNT.**—An eligible individual may open an Individual Development Account with a qualified financial institution, a qualified nonprofit organization, or an Indian tribe upon certification that such individual maintains no other Individual Development Account (other than an Individual Development Account to be terminated by a qualified rollover).

(b) **REQUIRED COMPLETION OF FINANCIAL EDUCATION COURSE.**—

(1) **IN GENERAL.**—Before becoming eligible to withdraw matching funds to pay for qualified expenses, owners of Individual Development Accounts must complete a financial education course offered by a qualified financial institution, a qualified nonprofit organization, an Indian tribe, or a government entity.

(2) **STANDARD AND APPLICABILITY OF COURSE.**—The Secretary, in consultation with representatives of qualified individual development account programs and financial educators, shall establish minimum quality standards for the contents of financial education courses and providers of such courses offered under paragraph (1) and a protocol to exempt individuals from the requirement under paragraph (1) because of hardship or lack of need.

(c) **PROOF OF STATUS AS AN ELIGIBLE INDIVIDUAL.**—Federal income tax forms from the preceding taxable year (or in the absence of such forms, such documentation as specified by the Secretary proving the eligible individual's adjusted gross income and the status of the individual as an eligible individual) shall be presented to the qualified financial institution, qualified nonprofit organization, or Indian tribe at the time of the establishment of the Individual Development Account and in any taxable year in which contributions are made to the Account to qualify for matching funds under section 15(b)(1)(A).

(d) **DIRECT DEPOSITS.**—The Secretary may, under regulations, provide for the direct deposit of any portion (not less than \$1) of any overpayment of Federal tax of an individual as a contribution to the Individual Development Account of such individual.

**SEC. 15. DEPOSITS BY QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAMS.**

(a) **PARALLEL ACCOUNTS.**—The qualified financial institution, qualified nonprofit organization, or Indian tribe shall deposit all matching funds for each Individual Development Account into a parallel account at a qualified financial institution, a qualified nonprofit organization, or an Indian tribe.

(b) **REGULAR DEPOSITS OF MATCHING FUNDS.**—

(1) **IN GENERAL.**—Subject to paragraph (2), the qualified financial institution, qualified nonprofit organization, or Indian tribe shall not less than quarterly (or upon a proper withdrawal request under section 16, if necessary) deposit into the parallel account with respect to each eligible individual the following:

(A) A dollar-for-dollar match for the first \$500 contributed by the eligible individual into an Individual Development Account with respect to any taxable year.

(B) Any matching funds provided by State, local, or private sources in accordance to the matching ratio set by those sources.

(2) **INFLATION ADJUSTMENT.**—

(A) **IN GENERAL.**—In the case of any taxable year beginning after 2002, the dollar amount referred to in paragraph (1)(A) shall be increased by an amount equal to—

(i) such dollar amount, multiplied by

(ii) the cost-of-living adjustment determined under section 1(f)(3) of the Internal Revenue Code of 1986 for the calendar year in which the taxable year begins, by substituting "2001" for "1992".

(B) **ROUNDING.**—If any amount as adjusted under subparagraph (A) is not a multiple of \$20, such amount shall be rounded to the nearest multiple of \$20.

(3) **CROSS REFERENCE.**—

**For allowance of tax credit for Individual Development Account subsidies, including matching funds, see section 30B of the Internal Revenue Code of 1986.**

(c) **DEPOSIT OF MATCHING FUNDS INTO INDIVIDUAL DEVELOPMENT ACCOUNT OF INDIVIDUAL WHO HAS ATTAINED AGE 61.**—In the case of an Individual Development Account owner who attains the age of 61, the qualified financial institution, qualified nonprofit organization, or Indian tribe which holds the parallel account for such individual shall deposit the funds in such parallel account into the Individual Development Account of such individual on the first day of the succeeding taxable year of such individual.

(d) **UNIFORM ACCOUNTING REGULATIONS.**—To ensure proper recordkeeping and determination of the tax credit under section 30B of the Internal Revenue Code of 1986, the Secretary shall prescribe regulations with respect to accounting for matching funds in the parallel accounts.

(e) **REGULAR REPORTING OF ACCOUNTS.**—Any qualified financial institution, qualified nonprofit organization, or Indian tribe shall report the balances in any Individual Development Account and parallel account of an individual on not less than an annual basis to such individual.

**SEC. 16. WITHDRAWAL PROCEDURES.**

(a) **WITHDRAWALS FOR QUALIFIED EXPENSES.**—To withdraw money from an individual's Individual Development Account to pay qualified expenses of such individual or such individual's spouse or dependents, the qualified financial institution, qualified nonprofit organization, or Indian tribe shall directly transfer such funds from the Individual Development Account, and, if applicable, from the parallel account electronically

to the distributees described in section 11(8)(A)(ii). If the distributee is not equipped to receive funds electronically, the qualified financial institution, qualified nonprofit organization, or Indian tribe may issue such funds by paper check to the distributee.

(b) **WITHDRAWALS FOR NONQUALIFIED EXPENSES.**—An Individual Development Account owner may unilaterally withdraw any amount of funds from the Individual Development Account for purposes other than to pay qualified expenses, but shall forfeit a proportionate amount of matching funds from the individual's parallel account by doing so, unless such withdrawn funds are re-contributed to such Account by September 30 following the withdrawal.

(c) **WITHDRAWALS FROM ACCOUNTS OF NON-ELIGIBLE INDIVIDUALS.**—If the individual for whose benefit an Individual Development Account is established ceases to be an eligible individual, such account shall remain an Individual Development Account, but such individual shall not be eligible for any further matching funds under section 15(b)(1)(A) during the period—

(1) beginning on the first day of the taxable year of such individual following the beginning of such ineligibility, and

(2) ending on the last day of the taxable year of such individual in which such ineligibility ceases.

(d) **TAX TREATMENT OF MATCHING FUNDS.**—Any amount withdrawn from a parallel account shall not be includible in an eligible individual's gross income.

(e) **WITHDRAWAL LIABILITY RESTS ONLY WITH ELIGIBLE INDIVIDUALS.**—Nothing in this subtitle may be construed to impose liability on a qualified financial institution, a qualified nonprofit organization, or an Indian tribe for non-compliance with the requirements of this subtitle related to withdrawals from Individual Development Accounts.

**SEC. 17. CERTIFICATION AND TERMINATION OF QUALIFIED INDIVIDUAL DEVELOPMENT ACCOUNT PROGRAMS.**

(a) **CERTIFICATION PROCEDURES.**—Upon establishing a qualified individual development account program under section 13, a qualified financial institution, a qualified nonprofit organization, or an Indian tribe shall certify to the Secretary on forms prescribed by the Secretary and accompanied by any documentation required by the Secretary, that—

(1) the accounts described in subparagraphs (A) and (B) of section 13(b)(1) are operating pursuant to all the provisions of this subtitle; and

(2) the qualified financial institution, qualified nonprofit organization, or Indian tribe agrees to implement an information system necessary to monitor the cost and outcomes of the qualified individual development account program.

(b) **AUTHORITY TO TERMINATE QUALIFIED IDA PROGRAM.**—If the Secretary determines that a qualified financial institution, a qualified nonprofit organization, or an Indian tribe under this subtitle is not operating a qualified individual development account program in accordance with the requirements of this subtitle (and has not implemented any corrective recommendations directed by the Secretary), the Secretary shall terminate such institution's, nonprofit organization's, or Indian tribe's authority to conduct the program. If the Secretary is unable to identify a qualified financial institution, a qualified nonprofit organization, or an Indian tribe to assume the authority to conduct such program, then any funds in a

parallel account established for the benefit of any individual under such program shall be deposited into the Individual Development Account of such individual as of the first day of such termination.

**SEC. 18. REPORTING, MONITORING, AND EVALUATION.**

(a) **RESPONSIBILITIES OF QUALIFIED FINANCIAL INSTITUTIONS, QUALIFIED NONPROFIT ORGANIZATIONS, AND INDIAN TRIBES.**—Each qualified financial institution, qualified nonprofit organization, or Indian tribe that operates a qualified individual development account program under section 13 shall report annually to the Secretary within 90 days after the end of each calendar year on—

(1) the number of eligible individuals making contributions into Individual Development Accounts;

(2) the amounts contributed into Individual Development Accounts and deposited into parallel accounts for matching funds;

(3) the amounts withdrawn from Individual Development Accounts and parallel accounts, and the purposes for which such amounts were withdrawn;

(4) the balances remaining in Individual Development Accounts and parallel accounts; and

(5) such other information needed to help the Secretary monitor the cost and outcomes of the qualified individual development account program (provided in a non-individually-identifiable manner).

(b) **RESPONSIBILITIES OF THE SECRETARY.**—

(1) **MONITORING PROTOCOL.**—Not later than 12 months after the date of the enactment of this Act, the Secretary shall develop and implement a protocol and process to monitor the cost and outcomes of the qualified individual development account programs established under section 13.

(2) **ANNUAL REPORTS.**—In each year after the date of the enactment of this Act, the Secretary shall submit a progress report to Congress on the status of such qualified individual development account programs. Such report shall include from a representative sample of qualified individual development account programs information on—

(A) the characteristics of participants, including age, gender, race or ethnicity, marital status, number of children, employment status, and monthly income;

(B) deposits, withdrawals, balances, uses of Individual Development Accounts, and participant characteristics;

(C) the characteristics of qualified individual development account programs, including match rate, economic education requirements, permissible uses of accounts, staffing of programs in full time employees, and the total costs of programs; and

(D) process information on program implementation and administration, especially on problems encountered and how problems were solved.

**SEC. 19. AUTHORIZATION OF APPROPRIATIONS.**

There is authorized to be appropriated to the Secretary \$1,000,000 for fiscal year 2002 and for each fiscal year through 2008, for the purposes of implementing this subtitle, including the reporting, monitoring, and evaluation required under section 18, to remain available until expended.

**SEC. 20. ACCOUNT FUNDS DISREGARDED FOR PURPOSES OF CERTAIN MEANS-TESTED FEDERAL PROGRAMS.**

Notwithstanding any other provision of Federal law that requires consideration of 1 or more financial circumstances of an individual, for the purposes of determining eligibility to receive, or the amount of, any as-

sistance or benefit authorized by such provision to be provided to or for the benefit of such individual, an amount equal to the sum of—

(1) all amounts (including earnings thereon) in any Individual Development Account; plus

(2) the matching deposits made on behalf of such individual (including earnings thereon) in any parallel account,

shall be disregarded for such purposes.

**SEC. 21. MATCHING FUNDS FOR INDIVIDUAL DEVELOPMENT ACCOUNTS PROVIDED THROUGH A TAX CREDIT FOR QUALIFIED FINANCIAL INSTITUTIONS.**

(a) **IN GENERAL.**—Subpart B of part IV of subchapter A of chapter 1 (relating to other credits) is amended by inserting after section 30A the following new section:

**“SEC. 30B. INDIVIDUAL DEVELOPMENT ACCOUNT INVESTMENT CREDIT FOR QUALIFIED FINANCIAL INSTITUTIONS.**

“(a) **DETERMINATION OF AMOUNT.**—There shall be allowed as a credit against the applicable tax for the taxable year an amount equal to the individual development account investment provided by an eligible entity during the taxable year under an individual development account program established under section 13 of the Savings Opportunity and Charitable Giving Act of 2001.

“(b) **APPLICABLE TAX.**—For the purposes of this section, the term ‘applicable tax’ means the excess (if any) of—

“(1) the tax imposed under this chapter (other than the taxes imposed under the provisions described in subparagraphs (C) through (Q) of section 26(b)(2)), over

“(2) the credits allowable under subpart B (other than this section) and subpart D of this part.

“(c) **INDIVIDUAL DEVELOPMENT ACCOUNT INVESTMENT.**—

“(1) **IN GENERAL.**—For purposes of this section, the term ‘individual development account investment’ means, with respect to an individual development account program of a qualified financial institution in any taxable year, an amount equal to the sum of—

“(A) the aggregate amount of dollar-for-dollar matches under such program under section 15(b)(1)(A) of the Savings Opportunity and Charitable Giving Act of 2001 for such taxable year, plus

“(B) an amount equal to the sum of—

“(i) with respect to each Individual Development Account opened during such taxable year, \$100, plus

“(ii) with respect to each Individual Development Account maintained during such taxable year, \$30.

“(2) **INFLATION ADJUSTMENT.**—

“(A) **IN GENERAL.**—In the case of any taxable year beginning after 2002, each dollar amount referred to in paragraph (1)(B) shall be increased by an amount equal to—

“(i) such dollar amount, multiplied by

“(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, by substituting ‘2001’ for ‘1992’.

“(B) **ROUNDING.**—If any amount as adjusted under subparagraph (A) is not a multiple of \$5, such amount shall be rounded to the nearest multiple of \$5.

“(d) **ELIGIBLE ENTITY.**—For purposes of this section, the term ‘eligible entity’ means a qualified financial institution, or 1 or more contractual affiliates of such an institution as defined by the Secretary in regulations.

“(e) **OTHER DEFINITIONS.**—For purposes of this section, any term used in this section and also in the Savings Opportunity and

Charitable Giving Act of 2001 Act shall have the meaning given such term by such Act.

“(f) **DENIAL OF DOUBLE BENEFIT.**—No deduction or credit (other than under this section) shall be allowed under this chapter with respect to any expense which is taken into account under subsection (c)(1)(A) in determining the credit under this section.

“(g) **REGULATIONS.**—The Secretary may prescribe such regulations as may be necessary or appropriate to carry out this section, including regulations providing for a recapture of the credit allowed under this section (notwithstanding any termination date described in subsection (h)) in cases where there is a forfeiture under section 16(b) of the Savings Opportunity and Charitable Giving Act of 2001 Act in a subsequent taxable year of any amount which was taken into account in determining the amount of such credit.

“(h) **APPLICATION OF SECTION.**—This section shall apply to any expenditure made in any taxable year beginning after December 31, 2001, and before January 1, 2009, with respect to any Individual Development Account opened before January 1, 2007.”.

(b) **CONFORMING AMENDMENT.**—The table of sections for subpart B of part IV of subchapter A of chapter 1 is amended by inserting after the item relating to section 30A the following new item:

“Sec. 30B. Individual development account investment credit for qualified financial institutions.”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

**Subtitle B—Charitable Giving Incentives Package**

**SEC. 31. DEDUCTION FOR PORTION OF CHARITABLE CONTRIBUTIONS TO BE ALLOWED TO INDIVIDUALS WHO DO NOT ITEMIZE DEDUCTIONS.**

(a) **IN GENERAL.**—Section 170 (relating to charitable, etc., contributions and gifts) is amended by redesignating subsection (m) as subsection (n) and by inserting after subsection (l) the following new subsection:

“(m) **DEDUCTION FOR INDIVIDUALS NOT ITEMIZING DEDUCTIONS.**—

“(1) **IN GENERAL.**—In the case of an individual who does not itemize his deductions for the taxable year, there shall be taken into account as a direct charitable deduction under section 63 an amount equal to the applicable percentage of the excess of the amount allowable under subsection (a) for the taxable year over the applicable amount.

“(2) **APPLICABLE PERCENTAGE.**—For purposes of this subsection, the applicable percentage shall be determined under the following table:

<b>“In the case of taxable years beginning in—</b>	<b>The applicable percentage is—</b>
2002 .....	50
2003 .....	60
2004 .....	70
2005 .....	80
2006 .....	90
2007 and thereafter .....	100.

“(3) **APPLICABLE AMOUNT.**—For purposes of this subsection, the applicable amount is equal—

“(A) \$500 in the case of an individual, and

“(B) \$1,000 in the case of a joint return.”.

(b) **DIRECT CHARITABLE DEDUCTION.**—

(1) **IN GENERAL.**—Subsection (b) of section 63 is amended by striking “and” at the end of paragraph (1), by striking the period at the end of paragraph (2) and inserting “, and”, and by adding at the end the following new paragraph:

“(3) the direct charitable deduction.”.

(2) DEFINITION.—Section 63 is amended by redesignating subsection (g) as subsection (h) and by inserting after subsection (f) the following new subsection:

“(g) DIRECT CHARITABLE DEDUCTION.—For purposes of this section, the term ‘direct charitable deduction’ means that portion of the amount allowable under section 170(a) which is taken as a direct charitable deduction for the taxable year under section 170(m).”.

(3) CONFORMING AMENDMENT.—Subsection (d) of section 63 is amended by striking “and” at the end of paragraph (1), by striking the period at the end of paragraph (2) and inserting “, and”, and by adding at the end the following new paragraph:

“(3) the direct charitable deduction.”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

#### SEC. 32. TAX-FREE DISTRIBUTIONS FROM INDIVIDUAL RETIREMENT ACCOUNTS FOR CHARITABLE PURPOSES.

(a) IN GENERAL.—Subsection (d) of section 408 (relating to individual retirement accounts) is amended by adding at the end the following new paragraph:

“(8) DISTRIBUTIONS FOR CHARITABLE PURPOSES.—

“(A) IN GENERAL.—No amount shall be includible in gross income by reason of a qualified charitable distribution from an individual retirement account to an organization described in section 170(c).

“(B) SPECIAL RULES RELATING TO CHARITABLE REMAINDER TRUSTS, POOLED INCOME FUNDS, AND CHARITABLE GIFT ANNUITIES.—

“(i) IN GENERAL.—No amount shall be includible in gross income by reason of a qualified charitable distribution from an individual retirement account—

“(I) to a charitable remainder annuity trust or a charitable remainder unitrust (as such terms are defined in section 664(d)),

“(II) to a pooled income fund (as defined in section 642(c)(5)), or

“(III) for the issuance of a charitable gift annuity (as defined in section 501(m)(5)).

The preceding sentence shall apply only if no person holds an income interest in the amounts in the trust, fund, or annuity attributable to such distribution other than one or more of the following: the individual for whose benefit such account is maintained, the spouse of such individual, or any organization described in section 170(c).

“(i) DETERMINATION OF INCLUSION OF AMOUNTS DISTRIBUTED.—In determining the amount includible in the gross income of any person by reason of a payment or distribution from a trust referred to in clause (i)(I) or a charitable gift annuity (as so defined), the portion of any qualified charitable distribution to such trust or for such annuity which would (but for this subparagraph) have been includible in gross income—

“(I) shall be treated as income described in section 664(b)(1), and

“(II) shall not be treated as an investment in the contract.

“(iii) NO INCLUSION FOR DISTRIBUTION TO POOLED INCOME FUND.—No amount shall be includible in the gross income of a pooled income fund (as so defined) by reason of a qualified charitable distribution to such fund.

“(C) QUALIFIED CHARITABLE DISTRIBUTION.—For purposes of this paragraph, the term ‘qualified charitable distribution’ means any distribution from an individual retirement

“(i) which is made on or after the date that the individual for whose benefit the account is maintained has attained age 59½, and

“(ii) which is made directly from the account to—

“(I) an organization described in section 170(c), or

“(II) a trust, fund, or annuity referred to in subparagraph (B).

“(D) DENIAL OF DEDUCTION.—The amount allowable as a deduction under section 170 to the taxpayer for the taxable year shall be reduced (but not below zero) by the sum of the amounts of the qualified charitable distributions during such year which would be includible in the gross income of the taxpayer for such year but for this paragraph.”

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after the date of the enactment of this Act.

#### SEC. 33. CHARITABLE DEDUCTION FOR CONTRIBUTIONS OF FOOD INVENTORY.

(a) IN GENERAL.—Subsection (e) of section 170 (relating to certain contributions of ordinary income and capital gain property) is amended by adding at the end the following new paragraph:

“(7) SPECIAL RULE FOR CONTRIBUTIONS OF FOOD INVENTORY.—For purposes of this section—

“(A) CONTRIBUTIONS BY NON-CORPORATE TAXPAYERS.—In the case of a charitable contribution of food by a taxpayer, paragraph (3)(A) shall be applied without regard to whether or not the contribution is made by a corporation.

“(B) LIMIT ON REDUCTION.—In the case of a charitable contribution of food which is a qualified contribution (within the meaning of paragraph (3)(A), as modified by subparagraph (A) of this paragraph)—

“(i) paragraph (3)(B) shall not apply, and

“(ii) the reduction under paragraph (1)(A) for such contribution shall be no greater than the amount (if any) by which the amount of such contribution exceeds twice the basis of such food.

“(C) DETERMINATION OF BASIS.—For purposes of this paragraph, if a taxpayer uses the cash method of accounting, the basis of any qualified contribution of such taxpayer shall be deemed to be 50 percent of the fair market value of such contribution.

“(D) DETERMINATION OF FAIR MARKET VALUE.—In the case of a charitable contribution of food which is a qualified contribution (within the meaning of paragraph (3), as modified by subparagraphs (A) and (B) of this paragraph) and which, solely by reason of internal standards of the taxpayer, lack of market, or similar circumstances, or which is produced by the taxpayer exclusively for the purposes of transferring the food to an organization described in paragraph (3)(A), cannot or will not be sold, the fair market value of such contribution shall be determined—

“(i) without regard to such internal standards, such lack of market, such circumstances, or such exclusive purpose, and

“(ii) if applicable, by taking into account the price at which the same or similar food items are sold by the taxpayer at the time of the contribution (or, if not so sold at such time, in the recent past).”

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 2001.

#### Subtitle C—Compliance With Congressional Budget Act

#### SEC. 41. SUNSET OF PROVISIONS OF TITLE.

All provisions of, and amendments made by, this title which are in effect on Sep-

tember 30, 2011, shall cease to apply as of the close of September 30, 2011.

#### SEC. 42. RESTORATION OF PROVISIONS OF TITLE.

All provisions of, and amendments made by, this title which were terminated under section 41 shall begin to apply again as of October 1, 2011, as provided in each such provision or amendment.

**SA 656.** Mr. GREGG (for himself, Mr. ENSIGN, Mr. ALLARD, Mr. KYL, Mr. BUNNING, and Mr. ALLEN) submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; as follows:

At the end of subtitle A of title VIII, add the following:

#### SEC. . TEMPORARY REDUCTION IN CAPITAL GAINS RATE.

(a) REDUCTION IN MAXIMUM RATE.—The following sections are each amended by striking “20 percent” and inserting “15 percent”:

- (1) Section 1(h)(1)(C).
- (2) Section 55(b)(3)(C).
- (3) Section 1445(e)(1).
- (4) The second sentence of section 7518(g)(6)(A).

(5) The second sentence of section 607(h)(6)(A) of the Merchant Marine Act, 1936.

(b) TRANSITION RULES FOR TAXABLE YEARS WHICH INCLUDE JUNE 1, 2001.—For purposes of applying section 1(h) of the Internal Revenue Code of 1986 in the case of a taxable year which includes June 1, 2001—

(1) The amount of tax determined under subparagraph (B) of section 1(h)(1) of such Code shall be the sum of—

- (A) 10 percent of the lesser of—
  - (i) the net capital gain taking into account only gain or loss properly taken into account for the portion of the taxable year on or after such date (determined without regard to collectible gain or loss, gain described in section 1(h)(6)(A)(i) of such Code, and section 1202 gain), or
  - (ii) the amount on which a tax is determined under such subparagraph (without regard to this subsection), plus
- (B) 10 percent of the excess (if any) of—
  - (i) the amount on which a tax is determined under such subparagraph (without regard to this subsection), over
  - (ii) the amount on which a tax is determined under subparagraph (A).

(2) The amount of tax determined under subparagraph (C) of section 1(h)(1) of such Code shall be the sum of—

- (A) 15 percent of the lesser of—
  - (i) the excess (if any) of the amount of net capital gain determined under subparagraph (A)(i) of paragraph (1) of this subsection over the amount on which a tax is determined under subparagraph (A) of paragraph (1) of this subsection, or
  - (ii) the amount on which a tax is determined under such subparagraph (C) (without regard to this subsection), plus
- (B) 20 percent of the excess (if any) of—
  - (i) the amount on which a tax is determined under such subparagraph (C) (without regard to this subsection), over
  - (ii) the amount on which a tax is determined under subparagraph (A) of this paragraph.

(3) For purposes of applying section 55(b)(3) of such Code, rules similar to the rules of paragraphs (1) and (2) of this subsection shall apply.

(4) In applying this subsection with respect to any pass-thru entity, the determination of

when gains and loss are properly taken into account shall be made at the entity level.

(5) Terms used in this subsection which are also used in section 1(h) of such Code shall have the respective meanings that such terms have in such section.

(c) **EFFECTIVE DATES.**—

(1) **IN GENERAL.**—Except as provided in paragraph (2), the amendments made by this section shall apply to sales or exchanges made—

(A) on or after June 1, 2001, and

(B) in taxable years beginning before January 1, 2004.

(2) **WITHHOLDING.**—The amendment made by subsection (a)(3) shall apply to amounts paid on or after June 1, 2001.

**SA 657.** Mr. GREGG submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

In lieu of the matter proposed to be inserted, insert the following:

**SEC. . EXTENSION OF MORATORIUM ON IMPOSITION OF TAXES ON THE INTERNET.**

Section 1101(a) of the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999 (112 Stat. 2681-719) is amended by striking “3 years” and inserting “6 years”.

**SA 658.** Mr. KYL submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

At the end of subtitle A of title VIII, add the following:

**SEC. . TEMPORARY REDUCTION IN CAPITAL GAINS RATE.**

(a) **REDUCTION IN MAXIMUM RATE.**—The following sections are each amended by striking “20 percent” and inserting “15 percent”:

(1) Section 1(h)(1)(C).

(2) Section 55(b)(3)(C).

(3) Section 1445(e)(1).

(4) The second sentence of section 7518(g)(6)(A).

(5) The second sentence of section 607(h)(6)(A) of the Merchant Marine Act, 1936.

(b) **TRANSITION RULES.**—For purposes of applying section 1(h) of the Internal Revenue Code of 1986 in the case of a taxable year which includes the date of the enactment of the Restoring Earnings To Lift Individuals and Empower Families (RELIEF) Act of 2001—

(1) The amount of tax determined under subparagraph (B) of section 1(h)(1) of such Code shall be the sum of—

(A) 10 percent of the lesser of—

(i) the net capital gain taking into account only gain or loss properly taken into account for the portion of the taxable year on or after such date (determined without regard to collectibles gain or loss, gain described in section 1(h)(6)(A)(i) of such Code, and section 1202 gain), or

(ii) the amount on which a tax is determined under such subparagraph (without regard to this subsection), plus

(B) 10 percent of the excess (if any) of—

(i) the amount on which a tax is determined under such subparagraph (without regard to this subsection), over

(ii) the amount on which a tax is determined under subparagraph (A).

(2) The amount of tax determined under subparagraph (C) of section 1(h)(1) of such Code shall be the sum of—

(A) 15 percent of the lesser of—

(i) the excess (if any) of the amount of net capital gain determined under subparagraph (A)(i) of paragraph (1) of this subsection over the amount on which a tax is determined under subparagraph (A) of paragraph (1) of this subsection, or

(ii) the amount on which a tax is determined under such subparagraph (C) (without regard to this subsection), plus

(B) 20 percent of the excess (if any) of—

(i) the amount on which a tax is determined under such subparagraph (C) (without regard to this subsection), over

(ii) the amount on which a tax is determined under subparagraph (A) of this paragraph.

(3) For purposes of applying section 55(b)(3) of such Code, rules similar to the rules of paragraphs (1) and (2) of this subsection shall apply.

(4) In applying this subsection with respect to any pass-thru entity, the determination of when gains and loss are properly taken into account shall be made at the entity level.

(5) Terms used in this subsection which are also used in section 1(h) of such Code shall have the respective meanings that such terms have in such section.

(c) **EFFECTIVE DATES.**—

(1) **IN GENERAL.**—Except as provided in paragraph (2), the amendments made by this section shall apply to sales or exchanges made—

(A) on or after the date of the enactment of this Act, and

(B) in taxable years beginning before January 1, 2003.

(2) **WITHHOLDING.**—The amendment made by subsection (a)(3) shall apply to amounts paid after the date of the enactment of this Act.

**SA 659.** Mrs. HUTCHISON (for herself and Mr. BROWNBAC) proposed an amendment to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; as follows:

On page 19, beginning with line 21, strike all through the matter preceding line 1 on page 20, and insert:

“(7) **APPLICABLE PERCENTAGE.**—For purposes of paragraph (2), the applicable percentage shall be determined in accordance with the following table:

<b>“For taxable years beginning in calendar year—</b>	<b>The applicable percentage is—</b>
2002 .....	170
2003 .....	175
2004 .....	180
2005 .....	185
2006 .....	190
2007 .....	195
2008 and thereafter .....	200.”

On page 20, line 14, strike “2005” and insert “2001”.

On page 29, line 4, strike “\$2,000” and insert “the applicable amount”.

On page 29, line 7, strike “\$2,000” and insert “the applicable amount (as defined in section 530(b)(6))”.

On page 29, between lines 7 and 8, insert:

(3) **APPLICABLE AMOUNT.**—Section 530(b) is amended by adding at the end the following:

“(6) **APPLICABLE AMOUNT.**—The applicable amount shall be determined in accordance with the following table:

**“In the case of taxable years beginning in calendar year—**

2002 or 2003 .....	\$500
2004 or 2005 .....	\$750
2006 or 2007 .....	\$1,000
2008 or 2009 .....	\$1,500
2010 and thereafter .....	\$2,000.”

On page 35, strike lines 21 through 23, and insert:

(h) **EFFECTIVE DATES.**—

(1) **IN GENERAL.**—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

(2) **SUBSECTION (c).**—The amendments made by subsection (c) shall apply to taxable years beginning after December 31, 2005.

Strike section 412 and insert:

**SEC. 412. INCREASE IN INCOME LIMITATION ON STUDENT LOAN INTEREST DEDUCTION.**

(a) **INCREASE IN INCOME LIMITATION.**—Section 221(b)(2)(B) (relating to amount of reduction) is amended by striking clauses (i) and (ii) and inserting the following:

“(i) the excess of—

“(I) the taxpayer’s modified adjusted gross income for such taxable year, over

“(II) \$50,000 (\$100,000 in the case of a joint return), bears to

“(ii) \$15,000 (\$30,000 in the case of a joint return).”

(b) **CONFORMING AMENDMENT.**—Section 221(g)(1) is amended by striking “\$40,000 and \$60,000 amounts” and inserting “\$50,000 and \$100,000 amounts”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to taxable years ending after December 31, 2001.

On page 53, line 12, strike “\$3,000” and insert “\$2,000 (\$1,500 in the case of 2002)”.

On page 53, line 21, after “\$5,000” insert “(\$3,000”.

On page 311, line 10, strike “\$49,000” and insert “\$48,000 in the case of 2004.”

On page 311, line 16, strike “\$35,750” and insert “\$35,250”.

**SA 660.** Mr. MCCAIN submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

On page 9, in the matter between lines 11 and 12, strike “37.6%” in the item relating to 2005 and 2006 and insert “38.6%” and strike “36%” in the item relating to 2007 and thereafter and insert “38.6%”.

On page 13, between lines 15 and 16, insert:

**SEC. 104. INCREASE IN MAXIMUM TAXABLE INCOME FOR 15 PERCENT RATE BRACKET.**

Section 1(f) (relating to adjustments in tax tables so that inflation will not result in tax increases), as amended by section 302, is amended—

(1) in paragraph (2)—

(A) by redesignating subparagraphs (B) and (C) as subparagraphs (C) and (D),

(B) by inserting after subparagraph (A) the following:

“(B) in the case of the tables contained in subsections (a), (b), (c), and (d), by increasing the maximum taxable income level for the 15 percent rate bracket and the minimum taxable income level for the next highest rate bracket otherwise determined under subparagraph (A) (after application of paragraph (8)) for taxable years beginning in any calendar year after 2004, by the applicable dollar amount for such calendar year,” and

(C) by striking “subparagraph (A)” in subparagraph (C) (as so redesignated) and inserting “subparagraphs (A) and (B)”, and

(2) by adding at the end the following:

“(9) APPLICABLE DOLLAR AMOUNT.—For purposes of paragraph (2)(B), the applicable dollar amount for any calendar year shall be determined as follows:

“(A) JOINT RETURNS AND SURVIVING SPOUSES.—In the case of the table contained in subsection (a)—

Calendar year:	Applicable Dollar Amount:
2005 .....	\$1,000
2006 .....	\$2,000
2007 .....	\$3,000
2008 .....	\$4,000
2009 and thereafter .....	\$5,000.

“(B) OTHER TABLES.—In the case of the table contained in subsection (b), (c), or (d)—

Calendar year:	Applicable Dollar Amount:
2005 .....	\$500
2006 .....	\$1,000
2007 .....	\$1,500
2008 .....	\$2,000
2009 and thereafter .....	\$2,500.”

**SA 661.** Mr. JOHNSON submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

On page 314, after line 21, add the following:

**SEC. 803. INCREASED FUNDING FOR VETERANS HOSPITAL CARE AND MEDICAL SERVICES.**

Notwithstanding any other provision of law, there is appropriated, out of any funds in the Treasury not otherwise appropriated, \$1,700,000,000 for fiscal year 2002 for purposes of providing hospital care and medical services to veterans under chapter 17 of title 38, United States Code.

**SA 662.** Mr. INOUE (for himself and Mr. AKAKA) submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

At the appropriate place, insert the following:

**SEC. \_\_\_\_ . TREATMENT OF CERTAIN HOSPITAL SUPPORT ORGANIZATIONS AS QUALIFIED ORGANIZATIONS FOR PURPOSES OF DETERMINING ACQUISITION INDEBTEDNESS.**

(a) IN GENERAL.—Subparagraph (C) of section 514(c)(9) (relating to real property acquired by a qualified organization) is amended by striking “or” at the end of clause (ii), by striking the period at the end of clause (iii) and inserting “; or”, and by adding at the end the following new clause:

“(iv) a qualified hospital support organization (as defined in subparagraph (I)).”

(b) QUALIFIED HOSPITAL SUPPORT ORGANIZATIONS.—Paragraph (9) of section 514(c) is amended by adding at the end the following new subparagraph:

“(I) QUALIFIED HOSPITAL SUPPORT ORGANIZATIONS.—For purposes of subparagraph (C)(iv), the term ‘qualified hospital support organization’ means, with respect to any eligible indebtedness (including any qualified refinancing of such eligible indebtedness), a

support organization (as defined in section 509(a)(3)) which supports a hospital described in section 119(d)(4)(B) and with respect to which—

“(i) more than half of its assets (by value) at any time since its organization—

“(I) were acquired, directly or indirectly, by gift or devise, and

“(II) consisted of real property, and

“(ii) the fair market value of the organization’s real estate acquired, directly or indirectly, by gift or devise, exceeded 10 percent of the fair market value of all investment assets held by the organization immediately prior to the time that the eligible indebtedness was incurred.

For purposes of this subparagraph, the term ‘eligible indebtedness’ means indebtedness secured by real property acquired by the organization, directly or indirectly, by gift or devise, the proceeds of which are used exclusively to acquire any leasehold interest in such real property or for improvements on, or repairs to, such real property. A determination under clauses (i) and (ii) of this subparagraph shall be made each time such an eligible indebtedness (or the qualified refinancing of such an eligible indebtedness) is incurred. For purposes of this subparagraph, a refinancing of such an eligible indebtedness shall be considered qualified if such refinancing does not exceed the amount of the refinanced eligible indebtedness immediately before the refinancing.”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to indebtedness incurred after December 31, 2003.

**SA 663.** Mr. INOUE (for himself and Mr. AKAKA) submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

**SEC. 573. SPECIAL RULES FOR CLOSELY HELD BUSINESSES WITH 16 TO 75 PARTNERS OR SHAREHOLDERS.**

(a) IN GENERAL.—Section 6166(b) (relating to definitions and special rules), as amended by section 571, is amended by adding at the end the following new paragraph:

“(11) SPECIAL RULES FOR BUSINESS WITH 16 TO 75 PARTNERS OR SHAREHOLDERS.—If the executor elects the benefits of this paragraph, then, for purposes of this section—

“(A) INTEREST AS A PARTNER IN A PARTNERSHIP TREATED AS AN INTEREST IN A CLOSELY HELD BUSINESS IF THE PARTNERSHIP HAD MORE THAN 15 BUT NO MORE THAN 75 PARTNERS.—An interest as partner in a partnership carrying on a trade or business shall be treated as an interest in a closely held business if such partnership had more than 15 but no more than 75 partners.

“(B) STOCK IN A CORPORATION TREATED AS AN INTEREST IN A CLOSELY HELD BUSINESS IF THE CORPORATION HAD MORE THAN 15 BUT NO MORE THAN 75 SHAREHOLDERS.—Stock in a corporation carrying on a trade or business shall be treated as an interest in a closely held business if such corporation had more than 15 but no more than 75 shareholders.

“(C) 5-YEAR DEFERRAL FOR PRINCIPAL NOT TO APPLY.—The executor shall be treated as having selected under subsection (a)(3) the date prescribed by section 6151(a).

“(D) 5 EQUAL INSTALLMENTS ALLOWED.—For purposes of applying subsection (a)(1), ‘5’ shall be substituted for ‘10’.”

(b) EFFECTIVE DATE.—The amendment made by this section, shall apply to estates of decedents dying after December 31, 2001.

**SA 664.** Mr. SCHUMER submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

On page 54, between lines 4 and 5, insert the following:

“(C) 2006 THROUGH 2011.—

“(i) IN GENERAL.—In the case of a taxable year beginning in 2006, 2007, 2008, 2009, 2010, or 2011, the applicable dollar amount shall be equal to the applicable dollar amount determined in the table contained in clause (ii), reduced (but not below zero) by the amount determined under clause (iii).

“(ii) APPLICABLE DOLLAR AMOUNT.—

Taxable year beginning in:	Applicable dollar amount:
2006 .....	\$10,000
2007 .....	\$10,000
2008 .....	\$12,000
2009 .....	\$12,000
2010 .....	\$12,000
2011 .....	\$12,000.

“(iii) AMOUNT OF REDUCTION.—The amount determined under this clause for any taxable year is the amount which bears the same ratio to the applicable dollar amount determined in the table contained in clause (ii) for such taxable year as—

“(I) the excess of—

“(aa) the taxpayer’s adjusted gross income for such taxable year, over

“(bb) \$65,000 (\$90,000 in the case of return filed by a head of household (as defined in section 2(b)), and \$130,000 in the case of a joint return), bears to

“(II) \$10,000 (\$20,000 in the case of a joint return).

On page 59, line 3, strike “\$500” and insert “\$1000”.

Strike section 511 relating to reductions of estate and gift tax rates.

**SA 665.** Mr. TORRICELLI submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

On page 314, after line 21, add the following:

**SEC. 3. PARTIAL EXCLUSION OF GAIN FROM SALE OF LOW-TO-MODERATE INCOME HOUSING.**

(a) IN GENERAL.—Part III of subchapter B of chapter 1 (relating to items specifically excluded from gross income) is amended by redesignating section 139 as section 140 and inserting after section 138 the following new section:

**“SEC. 139. CERTAIN GAIN FROM SALE OF LOW-TO-MODERATE INCOME HOUSING.**

“(a) IN GENERAL.—Gross income shall not include the gain from the sale of any qualified low-to-moderate income building made during the taxable year.

“(b) QUALIFIED LOW-TO-MODERATE INCOME BUILDING.—For purposes of this section—

“(1) IN GENERAL.—The term ‘qualified low-to-moderate income building’ means any building which is part of a qualified low-to-moderate income development project.

“(2) QUALIFIED LOW-TO-MODERATE INCOME DEVELOPMENT PROJECT.—

“(A) IN GENERAL.—The term ‘qualified low-to-moderate income development project’ means any development project of 1 or more for qualified low-to-moderate income buildings located in an eligible urban area if 40

percent or more of the residential units in such development project are occupied and owned by individuals whose income is 100 percent or less of area median gross income.

“(B) **ELIGIBLE URBAN AREA.**—The term ‘eligible urban area’ means an area which is either a qualified census tract or an area of chronic economic distress (as defined in paragraphs (2) and (3) of section 143(j), respectively).

“(c) **LIMITATION.**—The amount of gain which may be taken into account under subsection (a) with respect to the sale of a low-to-moderate income building shall not exceed \$10,000 for each low-to-moderate income unit in such building.”.

(b) **CONFORMING AMENDMENT.**—The table of sections for part III of subchapter B of chapter 1 is amended by striking the item relating to section 139 and inserting the following new items:

“Sec. 139. Certain gain from sale of low-to-moderate income housing.

“Sec. 140. Cross references to other Acts.”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply sales in taxable years beginning after the date of the enactment of this Act for five years.

**SA 666.** Mr. TORRICELLI submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

On page 314, after line 21, add the following:

**SEC. 803. MISCONDUCT OF INTERNAL REVENUE SERVICE EMPLOYEES.**

(a) **DISCIPLINE OR TERMINATION OF EMPLOYMENT FOR MISCONDUCT.**—Section 1203 of the Internal Revenue Service Restructuring and Reform Act of 1998 (26 U.S.C. 7804 note) is amended to read as follows:

**“SEC. 1203. DISCIPLINE OR TERMINATION OF EMPLOYMENT FOR MISCONDUCT.**

“(a) **IN GENERAL.**—Notwithstanding any other law, the Commissioner of Internal Revenue may impose discipline up to and including termination of the employment of any employee of the Internal Revenue Service if there is a final administrative or judicial determination that such employee committed any act or omission described under subsection (b) in the performance of the employee's official duties. Such termination shall be a removal for cause on charges of misconduct.

“(b) **ACTS OR OMISSIONS.**—The acts or omissions referred to under subsection (a) are—

“(1) willful failure to obtain the required approval signatures on documents authorizing the seizure of a taxpayer's home, personal belongings, or business assets;

“(2) willfully providing a false statement under oath with respect to a material matter involving a taxpayer or taxpayer representative;

“(3) with respect to a taxpayer, taxpayer representative, or other employee of the Internal Revenue Service, the willful violation of—

“(A) any right under the Constitution of the United States; or

“(B) any civil right established under—

“(i) title VI or VII of the Civil Rights Act of 1964;

“(ii) title IX of the Education Amendments of 1972;

“(iii) the Age Discrimination in Employment Act of 1967;

“(iv) the Age Discrimination Act of 1975;

“(v) section 501 or 504 of the Rehabilitation Act of 1973; or

“(vi) title I of the Americans with Disabilities Act of 1990;

“(4) willfully falsifying or destroying documents to conceal mistakes made by any employee with respect to a matter involving a taxpayer or taxpayer representative;

“(5) willful assault or battery on a taxpayer, taxpayer representative, or other employee of the Internal Revenue Service, but only if there is a criminal conviction, or a final judgment by a court in a civil case, with respect to the assault or battery;

“(6) willful violations of the Internal Revenue Code of 1986, Department of Treasury regulations, or policies of the Internal Revenue Service (including the Internal Revenue Manual) for the purpose of retaliating against, or harassing, a taxpayer, taxpayer representative, or other employee of the Internal Revenue Service;

“(7) willful misuse of the provisions of section 6103 of the Internal Revenue Code of 1986 for the purpose of concealing information from a congressional inquiry;

“(8) willful understatement of Federal tax liability, unless such understatement is due to reasonable cause and not to willful neglect; and

“(9) willfully threatening to audit a taxpayer for the purpose of extracting personal gain or benefit.

“(c) **NO APPEAL.**—Any determination of the Commissioner of Internal Revenue under subsection (a) may not be appealed in any administrative or judicial proceeding.

“(d) **DEFINITION.**—For purposes of the provisions described in clauses (i), (ii), and (iv) of subsection (b)(3)(B), references to a program or activity receiving Federal financial assistance or an education program or activity receiving Federal financial assistance shall include any program or activity conducted by the Internal Revenue Service for a taxpayer.”.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to acts or omissions occurring on or after the date of enactment of this Act.

**SA 667.** Mr. TORRICELLI submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

At the end of subtitle A of title II, add the following:

**SEC. \_\_\_\_ . ELIMINATION OF THE MARRIAGE PENALTY IN THE CHILD TAX CREDIT.**

(a) **IN GENERAL.**—Section 24(b) (relating to limitation based on adjusted gross income), as amended by section 201, is amended—

(1) by striking “\$55,000” in paragraph (2)(C) and inserting “one-half the amount in subparagraph (A)”, and

(2) by adding at the end, the following new paragraph:

“(4) **INFLATION ADJUSTMENT.**—In the case of any taxable year beginning after 2001, the dollar amount contained in paragraph (2)(A) shall be increased by an amount equal to—

“(A) such dollar amount, multiplied by

“(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, by substituting “calendar year 2000” for “calendar year 1992.”.

(b) **EFFECTIVE DATE.**—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

**SA 668.** Mr. ENSIGN submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

At the end of subtitle A of title VIII, add the following:

**SEC. \_\_\_\_ . TEMPORARY REDUCTION IN CAPITAL GAINS RATE.**

(a) **IN GENERAL.**—

(1) **REDUCTION IN 10 PERCENT RATE.**—Section 1(h)(1)(B) is amended by inserting “(8 percent in the case of 2002 and 2003)” after “10 percent”.

(2) **REDUCTION IN 20 PERCENT RATE.**—Section 1(h)(1)(C) (relating to maximum capital gains rate) is amended by inserting “(15 percent in the case of 2002 and 2003)” after “20 percent”.

(b) **CONFORMING AMENDMENTS.**—

(1) Section 1(h)(2)(A) is amended by inserting “(8 percent in the case of 2002 and 2003)” after “10 percent”.

(2) Section 55(b)(3) is amended—

(A) in subparagraph (B), by striking “10 percent” and inserting “the rate in effect under subsection 1(h)(1)(B)”, and

(B) in subparagraph (C), by striking “20 percent” and inserting “the rate in effect under subsection 1(h)(1)(C)”.

(3) Paragraph (1) of section 1445(e) by striking “20 percent” and inserting “the rate in effect under section 1(h)(1)(C))”.

(4)(A) The second sentence of section 7518(g)(6)(A) is amended by striking “20 percent” and inserting “the rate in effect under section 1(h)(1)(C)”.

(B) The second sentence of section 607(h)(6)(A) of the Merchant Marine Act, 1936 is amended by striking “20 percent” and inserting “the rate in effect under section 1(h)(1)(C)”.

**SA 669.** Mr. SCHUMER (for himself, Mr. BIDEN, Mr. BAYH, Mr. LIEBERMAN, Mr. DURBIN, Mr. TORRICELLI, Mrs. CLINTON, Mr. DASCHLE, Ms. STABENOW, and Mr. DAYTON) proposed an amendment to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; as follows:

On page 54, between lines 4 and 5, insert the following:

“(C) 2006 THROUGH 2011.—

“(i) **IN GENERAL.**—In the case of a taxable year beginning in 2006, 2007, 2008, 2009, 2010, or 2011, the applicable dollar amount shall be equal to the applicable dollar amount determined in the table contained in clause (ii), reduced (but not below zero) by the amount determined under clause (iii).

“(ii) **APPLICABLE DOLLAR AMOUNT.**—

Taxable year beginning in:	Applicable dollar amount:
2006 .....	\$10,000
2007 .....	10,000
2008 .....	12,000
2009 .....	12,000
2010 .....	12,000
2011 .....	12,000

“(iii) **AMOUNT OF REDUCTION.**—The amount determined under this clause for any taxable year is the amount which bears the same ratio to the applicable dollar amount determined in the table contained in clause (ii) for such taxable year as—

“(I) the excess of—

“(aa) the taxpayer's adjusted gross income for such taxable year, over



“(bb) \$65,000 (\$90,000 in the case of return filed by a head of household (as defined in section 2(b)), and \$130,000 in the case of a joint return), bears to

“(II) \$10,000 (\$20,000 in the case of a joint return).

On page 59, line 3, strike “\$500” and insert “\$1,000”.

Beginning on page 64, line 21, strike all through page 66, before line 2, and insert the following:

(a) MAXIMUM RATE OF TAX REDUCED TO 53 PERCENT.—The table contained in section 2001(c)(1) is amended by striking the two highest brackets and inserting the following: “Over \$2,500,000 ..... \$1,025,800, plus 53% of the excess over \$2,500,000.”.

(b) REPEAL OF PHASEOUT OF GRADUATED RATES.—Subsection (c) of section 2001 is amended by striking paragraph (2).

On page 68, strike lines 1 through 3.

**SA 670.** Mr. FITZGERALD (for himself, Mr. SCHUMER, Mr. JEFFORDS, Mrs. CLINTON, Mr. MCCAIN, Mr. TORRICELLI, Mr. DOMENICI, Mr. ALLEN, Mr. DURBIN, Mr. SMITH of Oregon, Mr. SPECTER, and Mr. NELSON of Florida) proposed an amendment to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; as follows:

At the end of subtitle A of title VIII, add the following:

**SEC. \_\_\_\_ NO FEDERAL INCOME TAX ON RESTITUTION RECEIVED BY VICTIMS OF THE NAZI REGIME OR THEIR HEIRS OR ESTATES.**

(a) IN GENERAL.—For purposes of the Internal Revenue Code of 1986, any excludable restitution payments received by an eligible individual (or the individual's heirs or estate)—

(1) shall not be included in gross income; and

(2) shall not be taken into account for purposes of applying any provision of such Code which takes into account excludable income in computing adjusted gross income, including section 86 of such Code (relating to taxation of Social Security benefits).

For purposes of such Code, the basis of any property received by an eligible individual (or the individual's heirs or estate) as part of an excludable restitution payment shall be the fair market value of such property as of the time of the receipt.

(b) COORDINATION WITH FEDERAL MEANS-TESTED PROGRAMS.—

(1) IN GENERAL.—Any excludable restitution payment shall be disregarded in determining eligibility for, and the amount of benefits or services to be provided under, any Federal or federally assisted program which provides benefits or service based, in whole or in part, on need.

(2) PROHIBITION AGAINST RECOVERY OF VALUE OF EXCESSIVE BENEFITS OR SERVICES.—No officer, agency, or instrumentality of any government may attempt to recover the value of excessive benefits or services provided under a program described in subsection (a) before January 1, 2000, by reason of any failure to take account of excludable restitution payments received before such date.

(3) NOTICE REQUIRED.—Any agency of government that has taken into account excludable restitution payments in determining eligibility for a program described in subsection (a) before January 1, 2000, shall make a good faith effort to notify any individual

who may have been denied eligibility for benefits or services under the program of the potential eligibility of the individual for such benefits or services.

(4) COORDINATION WITH 1994 ACT.—Nothing in this Act shall be construed to override any right or requirement under “An Act to require certain payments made to victims of Nazi persecution to be disregarded in determining eligibility for and the amount of benefits or services based on need”, approved August 1, 1994 (Public Law 103-286; 42 U.S.C. 1437a note), and nothing in that Act shall be construed to override any right or requirement under this Act.

(c) ELIGIBLE INDIVIDUAL.—For purposes of this section, the term “eligible individual” means a person who was persecuted for racial or religious reasons by Nazi Germany, any other Axis regime, or any other Nazi-controlled or Nazi-allied country.

(d) EXCLUDABLE RESTITUTION PAYMENT.—For purposes of this section, the term “excludable restitution payment” means any payment or distribution to an individual (or the individual's heirs or estate) which—

(1) is payable by reason of the individual's status as an eligible individual, including any amount payable by any foreign country, the United States of America, or any other foreign or domestic entity, or a fund established by any such country or entity, any amount payable as a result of a final resolution of a legal action, and any amount payable under a law providing for payments or restitution of property;

(2) constitutes the direct or indirect return of, or compensation or reparation for, assets stolen or hidden from, or otherwise lost to, the individual before, during, or immediately after World War II by reason of the individual's status as an eligible individual, including any proceeds of insurance under policies issued on eligible individuals by European insurance companies immediately before and during World War II; or

(3) consists of interest which is payable as part of any payment or distribution described in paragraph (1) or (2).

(e) EFFECTIVE DATE.—

(1) IN GENERAL.—This section shall apply to any amount received on or after January 1, 2000.

(2) NO INFERENCE.—Nothing in this Act shall be construed to create any inference with respect to the proper tax treatment of any amount received before January 1, 2000.

**SA 671.** Mr. ALLARD (for himself, Mr. GREGG, and Mr. BUNNING) submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

At the end of title I, insert:

**SEC. \_\_\_\_ REDUCTION IN CAPITAL GAINS RATES FOR INDIVIDUALS.**

(a) IN GENERAL.—

(1) 10-PERCENT RATE REDUCED TO 8 PERCENT.—Subparagraph (B) of section 1(h)(1), as amended by section 101, is amended by striking “10 percent” and inserting “8 percent”.

(2) 20-PERCENT RATE REDUCED TO 15 PERCENT.—Subparagraph (C) of section 1(h)(1) is amended by striking “20 percent” and inserting “15 percent”.

(4) CONFORMING AMENDMENTS.—

(A) Section 57(a)(7) is amended—

(i) by striking “42 percent” and inserting “28 percent”, and

(ii) by striking the last sentence.

(B) Paragraph (1) of section 1445(e) is amended by striking “20 percent” and inserting “15 percent”.

(C) The second sentence of section 7518(g)(6)(A), and the second sentence of section 607(h)(6)(A) of the Merchant Marine Act, 1936, are each amended by striking “20 percent” and inserting “15 percent”.

(2) CONFORMING AMENDMENTS.—Subparagraph (A)(ii) of section 1(h)(6), as redesignated by paragraph (1), is amended—

(A) in subclause (I) by striking “paragraph (5)(B)” and inserting “paragraph (4)(B)”, and

(B) in subclause (II) by striking “paragraph (5)(A)” and inserting “paragraph (4)(A)”.

(c) MINIMUM TAX.—

(1) IN GENERAL.—

(A) 10-PERCENT RATE REDUCED TO 8 PERCENT.—Subparagraph (B) of section 55(b)(3) is amended by striking “10 percent” and inserting “8 percent”.

(B) 20-PERCENT RATE REDUCED TO 15 PERCENT.—Subparagraph (C) of section 55(b)(3) is amended by striking “20 percent” and inserting “15 percent”.

(2) CONFORMING AMENDMENT.—Paragraph (3) of section 55(b) is amended in the matter following subparagraph (D) by striking “In the case of taxable years beginning after December 31, 2000, rules similar to the rules of section 1(h)(2) shall apply for purposes of subparagraphs (B) and (C).”.

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided by paragraph (2), the amendments made by this section shall apply to sales or exchanges after the date of the enactment of this Act and before January 1, 2003.

(2) WITHHOLDING.—The amendment made by subsection (a)(3)(B) shall apply to amounts paid after the date of the enactment of this Act and before January 1, 2003.

**SA 672.** Mr. ALLEN submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

On page 55, strike lines 17 through 21, and insert:

“(1) QUALIFIED TUITION AND RELATED EXPENSES.—

“(A) IN GENERAL.—The term ‘qualified tuition and related expenses’ has the meaning given such term by section 25A(f). Such expenses shall be reduced in the same manner as under section 25A(g)(2).

“(B) SPECIAL RULE FOR COMPUTERS AND INTERNET ACCESS FOR ELEMENTARY AND SECONDARY STUDENTS.—

“(i) IN GENERAL.—Except as provided in this paragraph, the term ‘qualified tuition and related expenses’ includes, in the case of an individual who maintains a household which includes as a member one or more qualifying students, amounts paid or incurred for computer technology or equipment.

“(ii) LIMITATION.—The amount of expenses under clause (i) which may be taken into account under subsection (a) for any taxable year shall not exceed \$1,000, reduced by the amount of expenses taken into account under clause (i) during the preceding 2 taxable years in connection with the purchase of a computer.

“(iii) QUALIFYING STUDENT.—For purposes of this subparagraph, the term ‘qualifying student’ means a dependent of the taxpayer (within the meaning of section 152) who is enrolled in school on a full-time basis.

“(iv) COMPUTER TECHNOLOGY OR EQUIPMENT.—For purposes of this subparagraph, the term ‘computer technology or equipment’ has the meaning given such term by section 170(e)(6)(F)(i) and includes Internet access and related services.

“(v) SCHOOL.—For purposes of this subparagraph, the term ‘school’ means any public, charter, private, religious, or home school which provides elementary education or secondary education (kindergarten through grade 12), as determined under State law.

**SA 673.** Mr. ALLEN submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

On page 31, lines 3 and 4, strike “computer equipment (including related software and services)”.

On page 31, line 10, strike “and”.

On page 31, line 17, strike the end period and insert “, and”.

On page 31, between lines 17 and 18, insert: “(iii) expenses for the purchase of any computer technology or equipment (as defined in section 170(e)(6)(F)(i)) or Internet access and related services, if such technology, equipment, or services are to be used by the beneficiary and the beneficiary’s family during any of the years the beneficiary is in school.

**SA 674.** Mrs. CARNAHAN (for herself and Mr. DASCHLE) proposed an amendment to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; as follows:

On page 9, strike lines 5 through 12 and insert the following:

“(2) REDUCTIONS IN RATES AFTER 2001.—

“(A) IN GENERAL.—Each rate of tax (other than the 10 percent rate) in the tables under subsections (a), (b), (c), (d), and (e) shall be reduced by 1 percentage point for taxable years beginning during a calendar year after the trigger year.

“(B) TRIGGER YEAR.—For purposes of subparagraph (A), the trigger year is—

“(i) 2002, in the case of the 15 percent rate,

“(ii) 2003, in the case of the 28 percent rate,

“(iii) 2004, in the case of the 31 percent rate,

“(iv) 2005, in the case of the 36 percent rate, and

“(v) 2006, in the case of the 39.6 percent rate.

“(3) ADJUSTMENT OF TABLES.—The Secretary”.

**SA 675.** Ms. COLLINS (for herself, Mr. WARNER, Mr. COCHRAN, Ms. LANDRIEU, Mr. ALLEN, Mr. SMITH of Oregon, Mr. HARKIN, Ms. MIKULSKI, Mr. REED, Mr. HUTCHINSON, Mr. DODD, and Mr. ENZI) proposed an amendment to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; as follows:

At the end of title IV, add the following:

#### **Subtitle E—Miscellaneous Education Provisions**

##### **SEC. 441. SHORT TITLE.**

This subtitle may be cited as the “Teacher Relief Act of 2001”.

##### **SEC. 442. ABOVE-THE-LINE DEDUCTION FOR QUALIFIED PROFESSIONAL DEVELOPMENT EXPENSES OF ELEMENTARY AND SECONDARY SCHOOL TEACHERS.**

(a) DEDUCTION ALLOWED.—Part VII of subchapter B of chapter 1 (relating to additional itemized deductions for individuals), as amended by section 431(a), is amended by redesignating section 223 as section 224 and by inserting after section 222 the following new section:

##### **“SEC. 223. QUALIFIED PROFESSIONAL DEVELOPMENT EXPENSES.**

“(a) ALLOWANCE OF DEDUCTION.—In the case of an eligible educator, there shall be allowed as a deduction an amount equal to the qualified professional development expenses paid or incurred by the taxpayer during the taxable year.

“(b) MAXIMUM DEDUCTION.—The deduction allowed under subsection (a) for any taxable year shall not exceed \$500.

“(c) QUALIFIED PROFESSIONAL DEVELOPMENT EXPENSES OF ELIGIBLE EDUCATORS.—For purposes of this section—

“(1) QUALIFIED PROFESSIONAL DEVELOPMENT EXPENSES.—

“(A) IN GENERAL.—The term ‘qualified professional development expenses’ means expenses for tuition, fees, books, supplies, equipment, and transportation required for the enrollment or attendance of an individual in a qualified course of instruction.

“(B) QUALIFIED COURSE OF INSTRUCTION.—The term ‘qualified course of instruction’ means a course of instruction which—

“(i) is—

“(I) directly related to the curriculum and academic subjects in which an eligible educator provides instruction,

“(II) designed to enhance the ability of an eligible educator to understand and use State standards for the academic subjects in which such educator provides instruction,

“(III) designed to provide instruction in how to teach children with different learning styles, particularly children with disabilities and children with special learning needs (including children who are gifted and talented), or

“(IV) designed to provide instruction in how best to discipline children in the classroom and identify early and appropriate interventions to help children described in subclause (III) to learn,

“(ii) is tied to—

“(I) challenging State or local content standards and student performance standards, or

“(II) strategies and programs that demonstrate effectiveness in increasing student academic achievement and student performance, or substantially increasing the knowledge and teaching skills of an eligible educator,

“(iii) is of sufficient intensity and duration to have a positive and lasting impact on the performance of an eligible educator in the classroom (which shall not include 1-day or short-term workshops and conferences), except that this clause shall not apply to an activity if such activity is 1 component described in a long-term comprehensive professional development plan established by an eligible educator and the educator’s supervisor based upon an assessment of the needs of the educator, the students of the educator, and the local educational agency involved, and

“(iv) is part of a program of professional development which is approved and certified by the appropriate local educational agency as furthering the goals of the preceding clauses.

“(C) LOCAL EDUCATIONAL AGENCY.—The term ‘local educational agency’ has the meaning given such term by section 14101 of the Elementary and Secondary Education Act of 1965, as in effect on the date of the enactment of this section.

“(2) ELIGIBLE EDUCATOR.—

“(A) IN GENERAL.—The term ‘eligible educator’ means an individual who is a kindergarten through grade 12 teacher, instructor, counselor, principal, or aide in an elementary or secondary school for at least 900 hours during a school year.

“(B) ELEMENTARY OR SECONDARY SCHOOL.—The terms ‘elementary school’ and ‘secondary school’ have the meanings given such terms by section 14101 of the Elementary and Secondary Education Act of 1965 (20 U.S.C. 8801), as so in effect.

“(d) DENIAL OF DOUBLE BENEFIT.—

“(1) IN GENERAL.—No other deduction or credit shall be allowed under this chapter for any amount taken into account for which a deduction is allowed under this section.

“(2) COORDINATION WITH EXCLUSIONS.—A deduction shall be allowed under subsection (a) for qualified professional development expenses only to the extent the amount of such expenses exceeds the amount excludable under section 135, 529(c)(1), or 530(d)(2) for the taxable year.”.

(b) DEDUCTION ALLOWED IN COMPUTING ADJUSTED GROSS INCOME.—Section 62(a), as amended by section 431(b), is amended by inserting after paragraph (18) the following new paragraph:

“(19) QUALIFIED PROFESSIONAL DEVELOPMENT EXPENSES.—The deduction allowed by section 223.”.

(c) CONFORMING AMENDMENTS.—

(1) Sections 86(b)(2), 135(c)(4), 137(b)(3), and 219(g)(3) are each amended by inserting “223,” after “221.”.

(2) Section 221(b)(2)(C) is amended by inserting “223,” before “911”.

(3) Section 469(i)(3)(E) is amended by striking “and 221” and inserting “, 221, and 223”.

(4) The table of sections for part VII of subchapter B of chapter 1, as amended by section 431(c), is amended by striking the item relating to section 223 and inserting the following new items:

“Sec. 223. Qualified professional development expenses.

“Sec. 224. Cross reference.”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2000.

##### **SEC. 442. CREDIT TO ELEMENTARY AND SECONDARY SCHOOL TEACHERS WHO PROVIDE CLASSROOM MATERIALS.**

(a) IN GENERAL.—Subpart B of part IV of subchapter A of chapter 1 (relating to other credits) is amended by adding at the end the following new section:

##### **“SEC. 30B. CREDIT TO ELEMENTARY AND SECONDARY SCHOOL TEACHERS WHO PROVIDE CLASSROOM MATERIALS.**

“(a) ALLOWANCE OF CREDIT.—In the case of an eligible educator, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 50 percent of the qualified elementary and secondary education expenses which are paid or incurred by the taxpayer during such taxable year.

“(b) MAXIMUM CREDIT.—The credit allowed by subsection (a) for any taxable year shall not exceed \$250.

“(c) DEFINITIONS.—

“(1) ELIGIBLE EDUCATOR.—The term ‘eligible educator’ has the same meaning given such term in section 223(c).

“(2) QUALIFIED ELEMENTARY AND SECONDARY EDUCATION EXPENSES.—The term ‘qualified elementary and secondary education expenses’ means expenses for books, supplies (other than nonathletic supplies for courses of instruction in health or physical education), computer equipment (including related software and services) and other equipment, and supplementary materials used by an eligible educator in the classroom.

“(3) ELEMENTARY OR SECONDARY SCHOOL.—The term ‘elementary or secondary school’ means any school which provides elementary education or secondary education (through grade 12), as determined under State law.

“(d) SPECIAL RULES.—

“(1) DENIAL OF DOUBLE BENEFIT.—No deduction shall be allowed under this chapter for any expense for which credit is allowed under this section.

“(2) APPLICATION WITH OTHER CREDITS.—The credit allowable under subsection (a) for any taxable year shall not exceed the excess (if any) of—

“(A) the regular tax for the taxable year, reduced by the sum of the credits allowable under subpart A and the preceding sections of this subpart, over

“(B) the tentative minimum tax for the taxable year.

“(e) ELECTION TO HAVE CREDIT NOT APPLY.—A taxpayer may elect to have this section not apply for any taxable year.”.

(b) CLERICAL AMENDMENT.—The table of sections for subpart B of part IV of subchapter A of chapter 1 is amended by adding at the end the following new item:

“Sec. 30B. Credit to elementary and secondary school teachers who provide classroom materials.”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

**SA 676.** Mr. BIDEN (for himself, Mr. TORRICELLI, Mr. KERRY, Mr. SCHUMER, Mr. BAUCUS, Mr. ALLEN, Mrs. BOXER, Mr. CARPER, Mr. CHAFEE, Mrs. CLINTON, Mr. CORZINE, Mr. DAYTON, Mr. DODD, Mr. DURBIN, Mr. LEAHY, Ms. MIKULSKI, Mrs. MURRAY, Mr. ROCKEFELLER, Mr. SARBANES, Mr. SPECTER, and Mr. WARNER) submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

At the end of subtitle A of title VIII, add the following:

#### **TITLE—HIGH-SPEED RAIL INVESTMENT**

#### **SEC. \_\_\_\_ CREDIT TO HOLDERS OF QUALIFIED AMTRAK BONDS.**

(a) IN GENERAL.—Part IV of subchapter A of chapter 1 (relating to credits against tax) is amended by adding at the end the following new subpart:

##### **“Subpart H—Nonrefundable Credit for Holders of Qualified Amtrak Bonds**

“Sec. 54. Credit to holders of qualified Amtrak bonds.

#### **“SEC. 54. CREDIT TO HOLDERS OF QUALIFIED AMTRAK BONDS.**

“(a) ALLOWANCE OF CREDIT.—In the case of a taxpayer who holds a qualified Amtrak bond on a credit allowance date of such bond which occurs during the taxable year, there shall be allowed as a credit against the tax imposed by this chapter for such taxable

year an amount equal to the sum of the credits determined under subsection (b) with respect to credit allowance dates during such year on which the taxpayer holds such bond.

“(b) AMOUNT OF CREDIT.—

“(1) IN GENERAL.—The amount of the credit determined under this subsection with respect to any credit allowance date for a qualified Amtrak bond is 25 percent of the annual credit determined with respect to such bond.

“(2) ANNUAL CREDIT.—The annual credit determined with respect to any qualified Amtrak bond is the product of—

“(A) the applicable credit rate, multiplied by

“(B) the outstanding face amount of the bond.

“(3) APPLICABLE CREDIT RATE.—For purposes of paragraph (2), the applicable credit rate with respect to an issue is the rate equal to an average market yield (as of the day before the date of sale of the issue) on outstanding long-term corporate debt obligations (determined under regulations prescribed by the Secretary).

“(4) SPECIAL RULE FOR ISSUANCE AND REDEMPTION.—In the case of a bond which is issued during the 3-month period ending on a credit allowance date, the amount of the credit determined under this subsection with respect to such credit allowance date shall be a ratable portion of the credit otherwise determined based on the portion of the 3-month period during which the bond is outstanding. A similar rule shall apply when the bond is redeemed.

“(c) LIMITATION BASED ON AMOUNT OF TAX.—

“(1) IN GENERAL.—The credit allowed under subsection (a) for any taxable year shall not exceed the excess of—

“(A) the sum of the regular tax liability (as defined in section 26(b)) plus the tax imposed by section 55, over

“(B) the sum of the credits allowable under this part (other than this subpart and subpart C).

“(2) CARRYOVER OF UNUSED CREDIT.—If the credit allowable under subsection (a) exceeds the limitation imposed by paragraph (1) for such taxable year, such excess shall be carried to the succeeding taxable year and added to the credit allowable under subsection (a) for such taxable year.

“(d) QUALIFIED AMTRAK BOND.—For purposes of this part—

“(1) IN GENERAL.—The term ‘qualified Amtrak bond’ means any bond issued as part of an issue if—

“(A) 95 percent or more of the proceeds of such issue are to be used for any qualified project,

“(B) the bond is issued by the National Railroad Passenger Corporation,

“(C) the issuer—

“(i) designates such bond for purposes of this section,

“(ii) certifies that it meets the State contribution requirement of paragraph (3) with respect to such project and that it has received the required State contribution payment before the issuance of such bond,

“(iii) certifies that it has obtained the written approval of the Secretary of Transportation for such project, including a finding by the Inspector General of the Department of Transportation that there is a reasonable likelihood that the proposed program will result in a positive incremental financial contribution to the National Railroad Passenger Corporation and that the investment evaluation process includes a return on investment, leveraging of funds (in-

cluding State capital and operating contributions), cost effectiveness, safety improvement, mobility improvement, and feasibility, and

“(iv) certifies that it has obtained written certification by the Secretary, after consultation with the Secretary of Transportation, that, in the case of a qualified project which results in passenger trains operating at speeds greater than 79 miles per hour, the issuer has entered into a written agreement with the rail carriers (as defined in section 24102 of title 49, United States Code) the properties of which are to be improved by such project as to the scope and estimated cost of such project and the impact on freight capacity of such rail carriers; Provided that the National Railroad Passenger Corporation shall not exercise its rights under section 24308(a) of such title 49 to resolve disputes with respect to such project or the cost of such project,

“(D) the term of each bond which is part of such issue does not exceed 20 years,

“(E) the payment of principal with respect to such bond is the obligation of the National Railroad Passenger Corporation (regardless of the establishment of the trust account under subsection (j)), and

“(F) the issue meets the requirements of subsection (h).

“(2) TREATMENT OF CHANGES IN USE.—For purposes of paragraph (1)(A), the proceeds of an issue shall not be treated as used for a qualified project to the extent that the issuer takes any action within its control which causes such proceeds not to be used for a qualified project. The Secretary shall prescribe regulations specifying remedial actions that may be taken (including conditions to taking such remedial actions) to prevent an action described in the preceding sentence from causing a bond to fail to be a qualified Amtrak bond.

“(3) STATE CONTRIBUTION REQUIREMENT.—

“(A) IN GENERAL.—For purposes of paragraph (1)(C)(ii), the State contribution requirement of this paragraph is met with respect to any qualified project if the National Railroad Passenger Corporation has a written binding commitment from 1 or more States to make matching contributions not later than the date of issuance of the issue of not less than 20 percent of the cost of the qualified project. State matching contributions may include privately funded contributions.

“(B) USE OF STATE MATCHING CONTRIBUTIONS.—The matching contributions described in subparagraph (A) with respect to each qualified project shall be used—

“(i) as necessary to redeem bonds which are a part of the issue with respect to such project, and

“(ii) in the case of any remaining amount, at the election of the National Railroad Passenger Corporation and the contributing State—

“(I) to fund a qualified project,

“(II) to redeem other qualified Amtrak bonds, or

“(III) for the purposes of subclauses (I) and (II).

“(C) STATE CONTRIBUTION REQUIREMENT FOR CERTAIN QUALIFIED PROJECTS.—

“(i) IN GENERAL.—Notwithstanding any other provision of law, with respect to any qualified project on the high-speed rail corridors designated under section 104(d)(2) of title 23, United States Code, the State contribution requirement of this paragraph may include the value of land to be contributed by a State for right-of-way.

“(ii) SPECIAL RULES REGARDING USE OF BOND PROCEEDS.—Proceeds from the issuance of

bonds for such a qualified project may be used to the extent necessary for the purpose of subparagraph (B)(i), and any such proceeds deposited into the trust account required under subsection (j) shall be deemed expenditures for the qualified project under subsection (h).

“(D) STATE MATCHING CONTRIBUTIONS MAY NOT INCLUDE FEDERAL FUNDS.—For purposes of this paragraph, State matching contributions shall not be derived, directly or indirectly, from Federal funds, including any transfers from the Highway Trust Fund under section 9503.

“(E) NO STATE CONTRIBUTION REQUIREMENT FOR CERTAIN QUALIFIED PROJECTS.—With respect to any qualified project described in subsection (e)(4), the State contribution requirement of this paragraph is zero.

“(4) QUALIFIED PROJECT.—

“(A) IN GENERAL.—The term ‘qualified project’ means—

“(i) the acquisition, financing, or refinancing of equipment, rolling stock, and other capital improvements, including station rehabilitation or construction, track or signal improvements, or the elimination of grade crossings, for the northeast rail corridor between Washington, D.C. and Boston, Massachusetts,

“(ii) the acquisition, financing, or refinancing of equipment, rolling stock, and other capital improvements, including station rehabilitation or construction, track or signal improvements, or the elimination of grade crossings, for the improvement of train speeds or safety (or both) on the high-speed rail corridors designated under section 104(d)(2) of title 23, United States Code, and

“(iii) the acquisition, financing, or refinancing of equipment, rolling stock, and other capital improvements, including station rehabilitation or construction, track or signal improvements, or the elimination of grade crossings, for other intercity passenger rail corridors for the purpose of increasing railroad speeds up to 90 miles per hour.

“(B) REFINANCING RULES.—For purposes of subparagraph (A), a refinancing shall constitute a qualified project only if the indebtedness being refinanced (including any obligation directly or indirectly refinanced by such indebtedness) was originally incurred by the National Railroad Passenger Corporation—

“(i) after the date of the enactment of this section,

“(ii) for a term of not more than 3 years,

“(iii) to finance or acquire capital improvements described in subparagraph (A), and

“(iv) in anticipation of being refinanced with proceeds of a qualified Amtrak bond.

“(C) PRIOR ISSUANCE COSTS.—For purposes of subparagraph (A), a qualified project may include the costs a State incurs prior to the issuance of the bonds to fulfill any statutory requirements directly necessary for implementation of the project.

“(e) LIMITATIONS ON AMOUNT OF BONDS DESIGNATED.—

“(1) IN GENERAL.—There is a qualified Amtrak bond limitation for each fiscal year. Such limitation is—

“(A) \$1,200,000,000 for each of the fiscal years 2002 through 2011, and

“(B) except as provided in paragraph (5), zero after fiscal year 2011.

“(2) BONDS FOR RAIL CORRIDORS.—Not more than \$3,000,000,000 of the limitation under paragraph (1) may be designated for any 1 rail corridor described in clause (i) or (ii) of subsection (d)(4)(A).

“(3) BONDS FOR OTHER PROJECTS.—Not more than \$100,000,000 of the limitation under

paragraph (1) for any fiscal year may be allocated to all qualified projects described in subsection (d)(4)(A)(iii).

“(4) BONDS FOR ALASKA RAILROAD.—The Secretary of Transportation may allocate to the Alaska Railroad a portion of the qualified Amtrak limitation for any fiscal year in order to allow the Alaska Railroad to issue bonds which meet the requirements of this section for use in financing any project described in subsection (d)(4)(A)(iii) (determined without regard to the requirement of increasing railroad speeds). For purposes of this section, the Alaska Railroad shall be treated in the same manner as the National Railroad Passenger Corporation.

“(5) CARRYOVER OF UNUSED LIMITATION.—If for any fiscal year—

“(A) the limitation amount under paragraph (1), exceeds

“(B) the amount of bonds issued during such year which are designated under subsection (d)(1)(C)(i),

the limitation amount under paragraph (1) for the following fiscal year (through fiscal year 2015) shall be increased by the amount of such excess.

“(6) ADDITIONAL SELECTION CRITERIA.—In selecting qualified projects for allocation of the qualified Amtrak bond limitation under this subsection, the Secretary of Transportation—

“(A) may give preference to any project with a State matching contribution rate exceeding 20 percent, and

“(B) shall consider regional balance in infrastructure investment and the national interest in ensuring the development of a nation-wide high-speed rail transportation network.

“(f) OTHER DEFINITIONS.—For purposes of this subpart—

“(1) BOND.—The term ‘bond’ includes any obligation.

“(2) CREDIT ALLOWANCE DATE.—The term ‘credit allowance date’ means—

“(A) March 15,

“(B) June 15,

“(C) September 15, and

“(D) December 15.

Such term includes the last day on which the bond is outstanding.

“(3) STATE.—The term ‘State’ means the several States and the District of Columbia, and any subdivision thereof.

“(4) PROGRAM.—The term ‘program’ means 1 or more projects implemented over 1 or more years to support the development of intercity passenger rail corridors.

“(g) CREDIT INCLUDED IN GROSS INCOME.—Gross income includes the amount of the credit allowed to the taxpayer under this section (determined without regard to subsection (c)) and the amount so included shall be treated as interest income.

“(h) SPECIAL RULES RELATING TO ARBITRAGE.—

“(1) IN GENERAL.—Subject to paragraph (2), an issue shall be treated as meeting the requirements of this subsection if as of the date of issuance, the issuer reasonably expects—

“(A) to spend at least 95 percent of the proceeds of the issue for 1 or more qualified projects within the 5-year period beginning on such date, and

“(B) to proceed with due diligence to complete such projects and to spend the proceeds of the issue.

“(2) RULES REGARDING CONTINUING COMPLIANCE AFTER 5-YEAR DETERMINATION.—If at least 95 percent of the proceeds of the issue is not expended for 1 or more qualified projects within the 5-year period beginning

on the date of issuance, an issue shall be treated as continuing to meet the requirements of this subsection if either—

“(A) the issuer uses all unspent proceeds of the issue to redeem bonds of the issue within 90 days after the end of such 5-year period, or

“(B) the following requirements are met:

“(i) The issuer spends at least 75 percent of the proceeds of the issue for 1 or more qualified projects within the 5-year period beginning on the date of issuance.

“(ii) The issuer has proceeded with due diligence to spend the proceeds of the issue within such 5-year period and continues to proceed with due diligence to spend such proceeds.

“(iii) The issuer pays to the Federal Government any earnings on the proceeds of the issue that accrue after the end of such 5-year period.

“(iv) Either—

“(I) at least 95 percent of the proceeds of the issue is expended for 1 or more qualified projects within the 6-year period beginning on the date of issuance, or

“(II) the issuer uses all unspent proceeds of the issue to redeem bonds of the issue within 90 days after the end of such 6-year period.

“(i) RECAPTURE OF PORTION OF CREDIT WHERE CESSATION OF COMPLIANCE.—

“(1) IN GENERAL.—If any bond which when issued purported to be a qualified Amtrak bond ceases to be a qualified Amtrak bond, the issuer shall pay to the United States (at the time required by the Secretary) an amount equal to the sum of—

“(A) the aggregate of the credits allowable under this section with respect to such bond (determined without regard to subsection (c)) for taxable years ending during the calendar year in which such cessation occurs and the 2 preceding calendar years, and

“(B) interest at the underpayment rate under section 6621 on the amount determined under subparagraph (A) for each calendar year for the period beginning on the first day of such calendar year.

“(2) FAILURE TO PAY.—If the issuer fails to timely pay the amount required by paragraph (1) with respect to such bond, the tax imposed by this chapter on each holder of any such bond which is part of such issue shall be increased (for the taxable year of the holder in which such cessation occurs) by the aggregate decrease in the credits allowed under this section to such holder for taxable years beginning in such 3 calendar years which would have resulted solely from denying any credit under this section with respect to such issue for such taxable years.

“(3) SPECIAL RULES.—

“(A) TAX BENEFIT RULE.—The tax for the taxable year shall be increased under paragraph (2) only with respect to credits allowed by reason of this section which were used to reduce tax liability. In the case of credits not so used to reduce tax liability, the carryforwards and carrybacks under section 39 shall be appropriately adjusted.

“(B) NO CREDITS AGAINST TAX.—Any increase in tax under paragraph (2) shall not be treated as a tax imposed by this chapter for purposes of determining—

“(i) the amount of any credit allowable under this part, or

“(ii) the amount of the tax imposed by section 55.

“(j) USE OF TRUST ACCOUNT.—

“(1) IN GENERAL.—The amount of any matching contribution with respect to a qualified project described in subsection (d)(3)(B)(i) or (d)(3)(B)(ii)(II) and the temporary period investment earnings on proceeds of the issue with respect to such

project, and any earnings thereon, shall be held in a trust account by a trustee independent of the National Railroad Passenger Corporation to be used to the extent necessary to redeem bonds which are part of such issue.

“(2) USE OF REMAINING FUNDS IN TRUST ACCOUNT.—Upon the repayment of the principal of all qualified Amtrak bonds issued under this section, any remaining funds in the trust account described in paragraph (1) shall be available—

“(A) to the trustee described in paragraph (1), to meet any remaining obligations under any guaranteed investment contract used to secure earnings sufficient to repay the principal of such bonds, and

“(B) to the issuer, for any qualified project.

“(k) OTHER SPECIAL RULES.—

“(1) PARTNERSHIP; S CORPORATION; AND OTHER PASS-THRU ENTITIES.—Under regulations prescribed by the Secretary, in the case of a partnership, trust, S corporation, or other pass-thru entity, rules similar to the rules of section 41(g) shall apply with respect to the credit allowable under subsection (a).

“(2) BONDS HELD BY REGULATED INVESTMENT COMPANIES.—If any qualified Amtrak bond is held by a regulated investment company, the credit determined under subsection (a) shall be allowed to shareholders of such company under procedures prescribed by the Secretary.

“(3) CREDITS MAY BE STRIPPED.—Under regulations prescribed by the Secretary—

“(A) IN GENERAL.—There may be a separation (including at issuance) of the ownership of a qualified Amtrak bond and the entitlement to the credit under this section with respect to such bond. In case of any such separation, the credit under this section shall be allowed to the person who on the credit allowance date holds the instrument evidencing the entitlement to the credit and not to the holder of the bond.

“(B) CERTAIN RULES TO APPLY.—In the case of a separation described in subparagraph (A), the rules of section 1286 shall apply to the qualified Amtrak bond as if it were a stripped bond and to the credit under this section as if it were a stripped coupon.

“(4) TREATMENT FOR ESTIMATED TAX PURPOSES.—Solely for purposes of sections 6654 and 6655, the credit allowed by this section to a taxpayer by reason of holding a qualified Amtrak bond on a credit allowance date shall be treated as if it were a payment of estimated tax made by the taxpayer on such date.

“(5) CREDIT MAY BE TRANSFERRED.—Nothing in any law or rule of law shall be construed to limit the transferability of the credit allowed by this section through sale and repurchase agreements.

“(6) REPORTING.—Issuers of qualified Amtrak bonds shall submit reports similar to the reports required under section 149(e).”

(b) REPORTING.—Subsection (d) of section 6049 (relating to returns regarding payments of interest), as amended by section 505(d), is amended by adding at the end the following new paragraph:

“(9) REPORTING OF CREDIT ON QUALIFIED AMTRAK BONDS.—

“(A) IN GENERAL.—For purposes of subsection (a), the term ‘interest’ includes amounts includible in gross income under section 54(g) and such amounts shall be treated as paid on the credit allowance date (as defined in section 54(f)(2)).

“(B) REPORTING TO CORPORATIONS, ETC.—Except as otherwise provided in regulations, in the case of any interest described in sub-

paragraph (A) of this paragraph, subsection (b)(4) of this section shall be applied without regard to subparagraphs (A), (H), (I), (J), (K), and (L)(i).

“(C) REGULATORY AUTHORITY.—The Secretary may prescribe such regulations as are necessary or appropriate to carry out the purposes of this paragraph, including regulations which require more frequent or more detailed reporting.”

(c) CLERICAL AMENDMENTS.—

(1) The table of subparts for part IV of subchapter A of chapter 1 is amended by adding at the end the following new item:

“Subpart H. Nonrefundable Credit for Holders of Qualified Amtrak Bonds.”

(2) Section 6401(b)(1) is amended by striking “and G” and inserting “G, and H”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to obligations issued after September 30, 2001.

(e) MULTI-YEAR CAPITAL SPENDING PLAN AND OVERSIGHT.—

(1) AMTRAK CAPITAL SPENDING PLAN.—

(A) IN GENERAL.—The National Railroad Passenger Corporation shall annually submit to the President and Congress a multi-year capital spending plan, as approved by the Board of Directors of the Corporation.

(B) CONTENTS OF PLAN.—Such plan shall identify the capital investment needs of the Corporation over a period of not less than 5 years and the funding sources available to finance such needs and shall prioritize such needs according to corporate goals and strategies.

(C) INITIAL SUBMISSION DATE.—The first plan shall be submitted before the issuance of any qualified Amtrak bonds by the National Railroad Passenger Corporation pursuant to section 54 of the Internal Revenue Code of 1986 (as added by this section).

(2) OVERSIGHT OF AMTRAK TRUST ACCOUNT AND QUALIFIED PROJECTS.—

(A) TRUST ACCOUNT OVERSIGHT.—The Secretary of the Treasury shall annually report to Congress as to whether the amount deposited in the trust account established by the National Railroad Passenger Corporation under section 54(j) of such Code (as so added) is sufficient to fully repay at maturity the principal of any outstanding qualified Amtrak bonds issued pursuant to section 54 of such Code (as so added), together with amounts expected to be deposited into such account, as certified by the National Railroad Passenger Corporation in accordance with procedures prescribed by the Secretary of the Treasury.

(B) PROJECT OVERSIGHT.—The National Railroad Passenger Corporation shall contract for an annual independent assessment of the costs and benefits of the qualified projects financed by such qualified Amtrak bonds, including an assessment of the investment evaluation process of the Corporation. The annual assessment shall be included in the plan submitted under paragraph (1).

(C) OVERSIGHT FUNDING.—Not more than 0.5 percent of the amounts made available through the issuance of qualified Amtrak bonds by the National Railroad Passenger Corporation pursuant to section 54 of such Code (as so added) may be used by the National Railroad Passenger Corporation for assessments described in subparagraph (B).

(f) PROTECTION OF HIGHWAY TRUST FUND.—

(1) CERTIFICATION BY THE SECRETARY OF THE TREASURY.—The issuance of any qualified Amtrak bonds by the National Railroad Passenger Corporation or the Alaska Railroad pursuant to section 54 of the Internal Revenue Code of 1986 (as added by this section)

is conditioned on certification by the Secretary of the Treasury, after consultation with the Secretary of Transportation, within 30 days of a request by the issuer, that with respect to funds of the Highway Trust Fund described under paragraph (2), the issuer either—

(A) has not received such funds during fiscal years commencing with fiscal year 2002 and ending before the fiscal year the bonds are issued, or

(B) has repaid to the Highway Trust Fund any such funds which were received during such fiscal years.

(2) APPLICABILITY.—This subsection shall apply to funds received directly, or indirectly from a State or local transit authority, from the Highway Trust Fund established under section 9503 of the Internal Revenue Code of 1986, except for funds authorized to be expended under section 9503(c) of such Code, as in effect on the date of the enactment of this Act.

(3) NO RETROACTIVE EFFECT.—Nothing in this subsection shall adversely affect the entitlement of the holders of qualified Amtrak bonds to the tax credit allowed pursuant to section 54 of the Internal Revenue Code of 1986 (as so added) or to repayment of principal upon maturity.

(g) EXEMPTION FROM TAXES FOR HIGH-SPEED RAIL LINES AND IMPROVEMENTS.—Notwithstanding any other provision of law, no rail carrier (as defined in section 24102 of title 49, United States Code) shall be required to pay any tax or fee imposed by the Internal Revenue Code of 1986 with respect to the acquisition, improvement, or ownership of personal or real property funded by the proceeds of qualified Amtrak bonds (as defined in section 54(d) of the Internal Revenue Code of 1986 (as added by this section) or with respect to revenues or income derived from such acquisition, improvement, or ownership (other than revenues or income derived from expanded operations resulting from such acquisition, improvement, or ownership).

(h) ISSUANCE OF REGULATIONS.—The Secretary of the Treasury shall issue regulations required under section 54 of the Internal Revenue Code (as added by this section) not later than 90 days after the date of the enactment of this Act.

(i) ISSUANCE OF TAX-EXEMPT BONDS FOR RAIL PASSENGER PROJECTS.—

(1) FUNDING STATE MATCH REQUIREMENT.—Section 142(a) (relating to exempt facility bond) is amended by striking “or” at the end of paragraph (11), by striking the period at the end of paragraph (12) and inserting “, or”, and by adding at the end the following new paragraph:

“(13) the State contribution requirement for qualified projects under section 54.”

(2) REPEAL OF GOVERNMENTAL OWNERSHIP REQUIREMENT FOR MASS COMMUTING FACILITIES.—Section 142(b)(1)(A) (relating to certain facilities must be governmentally owned) is amended by striking “(3).”

(3) DEFINITION OF HIGH-SPEED INTERCITY RAIL FACILITIES.—Section 142(i)(1) is amended by striking “in excess of 150 miles per hour” and inserting “prescribed in section 104(d)(2) of title 23, United States Code.”

(4) EXEMPTION FROM VOLUME CAP.—Subsection (g) of section 146 (relating to exception for certain bonds) is amended by striking paragraph (4) and the last sentence of such subsection and inserting the following new paragraph:

“(4) any exempt facility bond issued as part of an issue described in paragraph (3), (11), or (13) of section 142(a) (relating to mass

commuting facilities, high-speed intercity rail facilities, and State contribution requirements under section 54)."

(5) **EFFECTIVE DATE.**—The amendments made by this subsection shall apply to bonds issued after the date of enactment of this Act.

**SA 677.** Mr. KERRY submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

On page 66, in the table set forth between lines 1 and 2, strike that matter relating to years 2007, 2008, 2009, and 2010 and insert the following:

"2007 and 2008 .....	46 percent
"2009 and 2010 .....	45 percent."

At the end of subtitle A of title VIII, add the following:

**SEC. \_\_\_\_ CREDIT FOR MEDICAL RESEARCH RELATED TO DEVELOPING VACCINES AGAINST WIDESPREAD DISEASES.**

(a) **IN GENERAL.**—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits), as amended by section 620, is amended by adding at the end the following new section:

**"SEC. 45G. CREDIT FOR MEDICAL RESEARCH RELATED TO DEVELOPING VACCINES AGAINST WIDESPREAD DISEASES.**

"(a) **GENERAL RULE.**—For purposes of section 38, the vaccine research credit determined under this section for the taxable year is an amount equal to 30 percent of the qualified vaccine research expenses for the taxable year.

"(b) **QUALIFIED VACCINE RESEARCH EXPENSES.**—For purposes of this section—

"(1) **QUALIFIED VACCINE RESEARCH EXPENSES.**—

"(A) **IN GENERAL.**—Except as otherwise provided in this paragraph, the term 'qualified vaccine research expenses' means the amounts which are paid or incurred by the taxpayer during the taxable year which would be described in subsection (b) of section 41 if such subsection were applied with the modifications set forth in subparagraph (B).

"(B) **MODIFICATIONS; INCREASED INCENTIVE FOR CONTRACT RESEARCH PAYMENTS.**—For purposes of subparagraph (A), subsection (b) of section 41 shall be applied—

"(i) by substituting 'vaccine research' for 'qualified research' each place it appears in paragraphs (2) and (3) of such subsection, and

"(ii) by substituting '100 percent' for '65 percent' in paragraph (3)(A) of such subsection.

"(C) **EXCLUSION FOR AMOUNTS FUNDED BY GRANTS, ETC.**—The term 'qualified vaccine research expenses' shall not include any amount to the extent such amount is funded by any grant, contract, or otherwise by another person (or any governmental entity).

"(2) **VACCINE RESEARCH.**—The term 'vaccine research' means research to develop vaccines and microbicides for—

"(A) malaria,

"(B) tuberculosis,

"(C) HIV, or

"(D) any infectious disease (of a single etiology) which, according to the World Health Organization, causes over 1,000,000 human deaths annually.

"(c) **COORDINATION WITH CREDIT FOR INCREASING RESEARCH EXPENDITURES.**—

"(1) **IN GENERAL.**—Except as provided in paragraph (2), any qualified vaccine research expenses for a taxable year to which an election under this section applies shall not be taken into account for purposes of determining the credit allowable under section 41 for such taxable year.

"(2) **EXPENSES INCLUDED IN DETERMINING BASE PERIOD RESEARCH EXPENSES.**—Any qualified vaccine research expenses for any taxable year which are qualified research expenses (within the meaning of section 41(b)) shall be taken into account in determining base period research expenses for purposes of applying section 41 to subsequent taxable years.

"(d) **SPECIAL RULES.**—

"(1) **LIMITATIONS ON FOREIGN TESTING.**—No credit shall be allowed under this section with respect to any vaccine research (other than human clinical testing) conducted outside the United States.

"(2) **PRE-CLINICAL RESEARCH.**—No credit shall be allowed under this section for pre-clinical research unless such research is pursuant to a research plan an abstract of which has been filed with the Secretary before the beginning of such year. The Secretary, in consultation with the Secretary of Health and Human Services, shall prescribe regulations specifying the requirements for such plans and procedures for filing under this paragraph.

"(3) **CERTAIN RULES MADE APPLICABLE.**—Rules similar to the rules of paragraphs (1) and (2) of section 41(f) shall apply for purposes of this section.

"(4) **ELECTION.**—This section (other than subsection (e)) shall apply to any taxpayer for any taxable year only if such taxpayer elects to have this section apply for such taxable year.

"(e) **CREDIT TO BE REFUNDABLE FOR CERTAIN TAXPAYERS.**—

"(1) **IN GENERAL.**—In the case of an electing qualified taxpayer—

"(A) the credit under this section shall be determined without regard to section 38(c), and

"(B) the credit so determined shall be allowed as a credit under subpart C.

"(2) **ELECTING QUALIFIED TAXPAYER.**—For purposes of this subsection, the term 'electing qualified taxpayer' means, with respect to any taxable year, any domestic C corporation if—

"(A) the aggregate gross assets of such corporation at any time during such taxable year are \$500,000,000 or less,

"(B) the net income tax (as defined in section 38(c)) of such corporation is zero for such taxable year and the 2 preceding taxable years,

"(C) as of the close of the taxable year, the corporation is not under the jurisdiction of a court in a title 11 or similar case (within the meaning of section 368(a)(3)(A)),

"(D) the corporation provides such assurances as the Secretary requires that, not later than 2 taxable years after the taxable year in which the taxpayer receives any refund of a credit under this subsection, the taxpayer will make an amount of qualified vaccine research expenses equal to the amount of such refund, and

"(E) the corporation elects the application of this subsection for such taxable year.

"(3) **AGGREGATE GROSS ASSETS.**—Aggregate gross assets shall be determined in the same manner as such assets are determined under section 1202(d).

"(4) **CONTROLLED GROUPS.**—A corporation shall be treated as meeting the requirement of paragraph (2)(B) only if each person who is

treated with such corporation as a single employer under subsections (a) and (b) of section 52 also meets such requirement.

"(5) **SPECIAL RULES.**—

"(A) **RECAPTURE OF CREDIT.**—The Secretary shall promulgate such regulations as necessary and appropriate to provide for the recapture of any credit allowed under this subsection in cases where the taxpayer fails to make the expenditures described in paragraph (2)(D).

"(B) **EXCLUSION OF CERTAIN QUALIFIED VACCINE RESEARCH EXPENSES.**—For purposes of determining the credit under this section for a taxable year, the qualified vaccine research expenses taken into account for such taxable year shall not include an amount paid or incurred during such taxable year equal to the amount described in paragraph (2)(D) (and not already taken into account under this subparagraph for a previous taxable year)."

(b) **INCLUSION IN GENERAL BUSINESS CREDIT.**—

(1) **IN GENERAL.**—Section 38(b), as amended by section 620, is amended by striking "plus" at the end of paragraph (14), by striking the period at the end of paragraph (15) and inserting ", plus", and by adding at the end the following new paragraph:

"(16) the vaccine research credit determined under section 45G."

(2) **TRANSITION RULE.**—Section 39(d), as amended by section 620, is amended by adding at the end the following new paragraph:

"(12) **NO CARRYBACK OF SECTION 45G CREDIT BEFORE ENACTMENT.**—No portion of the unused business credit for any taxable year which is attributable to the vaccine research credit determined under section 45G may be carried back to a taxable year ending before the date of the enactment of section 45G."

(c) **DENIAL OF DOUBLE BENEFIT.**—Section 280C is amended by adding at the end the following new subsection:

"(d) **CREDIT FOR QUALIFIED VACCINE RESEARCH EXPENSES.**—

"(1) **IN GENERAL.**—No deduction shall be allowed for that portion of the qualified vaccine research expenses (as defined in section 45G(b)) otherwise allowable as a deduction for the taxable year which is equal to the amount of the credit determined for such taxable year under section 45G(a).

"(2) **CERTAIN RULES TO APPLY.**—Rules similar to the rules of paragraphs (2), (3), and (4) of subsection (c) shall apply for purposes of this subsection."

(d) **DEDUCTION FOR UNUSED PORTION OF CREDIT.**—Section 196(c) (defining qualified business credits) is amended by striking "and" at the end of paragraph (8), by striking the period at the end of paragraph (9) and inserting ", and", and by adding at the end the following new paragraph:

"(10) the vaccine research credit determined under section 45G(a) (other than such credit determined under the rules of section 280C(d)(2))."

(e) **TECHNICAL AMENDMENTS.**—

(1) Section 1324(b)(2) of title 31, United States Code, is amended by inserting "or from section 45G(e) of such Code," after "1978,"

(2) The table of sections for subpart D of part IV of subchapter A of chapter 1, as amended by section 620, is amended by adding at the end the following new item:

"Sec. 45G. Credit for medical research related to developing vaccines against widespread diseases."

(f) **EFFECTIVE DATE.**—The amendments made by this section shall apply to taxable years ending after the date of the enactment of this Act.



**SA 678.** Mr. KERRY submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

On page 66, in the table set forth between lines 1 and 2, strike that matter relating to years 2007, 2008, 2009, and 2010 and insert the following:

"2007 and 2008 .....	46 percent
"2009 and 2010 .....	45 percent."

At the end of subtitle A of title VIII, add the following:

**SEC. \_\_\_\_ CREDIT FOR MEDICAL RESEARCH RELATED TO DEVELOPING VACCINES AGAINST WIDESPREAD DISEASES.**

(a) IN GENERAL.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits), as amended by section 620, is amended by adding at the end the following new section:

**"SEC. 45G. CREDIT FOR MEDICAL RESEARCH RELATED TO DEVELOPING VACCINES AGAINST WIDESPREAD DISEASES.**

"(a) GENERAL RULE.—For purposes of section 38, the vaccine research credit determined under this section for the taxable year is an amount equal to 30 percent of the qualified vaccine research expenses for the taxable year.

"(b) QUALIFIED VACCINE RESEARCH EXPENSES.—For purposes of this section—

"(1) QUALIFIED VACCINE RESEARCH EXPENSES.—

"(A) IN GENERAL.—Except as otherwise provided in this paragraph, the term 'qualified vaccine research expenses' means the amounts which are paid or incurred by the taxpayer during the taxable year which would be described in subsection (b) of section 41 if such subsection were applied with the modifications set forth in subparagraph (B).

"(B) MODIFICATIONS; INCREASED INCENTIVE FOR CONTRACT RESEARCH PAYMENTS.—For purposes of subparagraph (A), subsection (b) of section 41 shall be applied—

"(i) by substituting 'vaccine research' for 'qualified research' each place it appears in paragraphs (2) and (3) of such subsection, and

"(ii) by substituting '100 percent' for '65 percent' in paragraph (3)(A) of such subsection.

"(C) EXCLUSION FOR AMOUNTS FUNDED BY GRANTS, ETC.—The term 'qualified vaccine research expenses' shall not include any amount to the extent such amount is funded by any grant, contract, or otherwise by another person (or any governmental entity).

"(2) VACCINE RESEARCH.—The term 'vaccine research' means research to develop vaccines and microbicides for—

"(A) malaria,

"(B) tuberculosis,

"(C) HIV, or

"(D) any infectious disease (of a single etiology) which, according to the World Health Organization, causes over 1,000,000 human deaths annually.

"(c) COORDINATION WITH CREDIT FOR INCREASING RESEARCH EXPENDITURES.—

"(1) IN GENERAL.—Except as provided in paragraph (2), any qualified vaccine research expenses for a taxable year to which an election under this section applies shall not be taken into account for purposes of determining the credit allowable under section 41 for such taxable year.

"(2) EXPENSES INCLUDED IN DETERMINING BASE PERIOD RESEARCH EXPENSES.—Any

qualified vaccine research expenses for any taxable year which are qualified research expenses (within the meaning of section 41(b)) shall be taken into account in determining base period research expenses for purposes of applying section 41 to subsequent taxable years.

"(d) SPECIAL RULES.—

"(1) LIMITATIONS ON FOREIGN TESTING.—No credit shall be allowed under this section with respect to any vaccine research (other than human clinical testing) conducted outside the United States.

"(2) PRE-CLINICAL RESEARCH.—No credit shall be allowed under this section for pre-clinical research unless such research is pursuant to a research plan an abstract of which has been filed with the Secretary before the beginning of such year. The Secretary, in consultation with the Secretary of Health and Human Services, shall prescribe regulations specifying the requirements for such plans and procedures for filing under this paragraph.

"(3) CERTAIN RULES MADE APPLICABLE.—Rules similar to the rules of paragraphs (1) and (2) of section 41(f) shall apply for purposes of this section.

"(4) ELECTION.—This section (other than subsection (e)) shall apply to any taxpayer for any taxable year only if such taxpayer elects to have this section apply for such taxable year.

"(e) CREDIT TO BE REFUNDABLE FOR CERTAIN TAXPAYERS.—

"(1) IN GENERAL.—In the case of an electing qualified taxpayer—

"(A) the credit under this section shall be determined without regard to section 38(c), and

"(B) the credit so determined shall be allowed as a credit under subpart C.

"(2) ELECTING QUALIFIED TAXPAYER.—For purposes of this subsection, the term 'electing qualified taxpayer' means, with respect to any taxable year, any domestic C corporation if—

"(A) the aggregate gross assets of such corporation at any time during such taxable year are \$500,000,000 or less,

"(B) the net income tax (as defined in section 38(c)) of such corporation is zero for such taxable year and the 2 preceding taxable years,

"(C) as of the close of the taxable year, the corporation is not under the jurisdiction of a court in a title 11 or similar case (within the meaning of section 368(a)(3)(A)),

"(D) the corporation provides such assurances as the Secretary requires that, not later than 2 taxable years after the taxable year in which the taxpayer receives any refund of a credit under this subsection, the taxpayer will make an amount of qualified vaccine research expenses equal to the amount of such refund, and

"(E) the corporation elects the application of this subsection for such taxable year.

"(3) AGGREGATE GROSS ASSETS.—Aggregate gross assets shall be determined in the same manner as such assets are determined under section 1202(d).

"(4) CONTROLLED GROUPS.—A corporation shall be treated as meeting the requirement of paragraph (2)(B) only if each person who is treated with such corporation as a single employer under subsections (a) and (b) of section 52 also meets such requirement.

"(5) SPECIAL RULES.—

"(A) RECAPTURE OF CREDIT.—The Secretary shall promulgate such regulations as necessary and appropriate to provide for the recapture of any credit allowed under this subsection in cases where the taxpayer fails to

make the expenditures described in paragraph (2)(D).

"(B) EXCLUSION OF CERTAIN QUALIFIED VACCINE RESEARCH EXPENSES.—For purposes of determining the credit under this section for a taxable year, the qualified vaccine research expenses taken into account for such taxable year shall not include an amount paid or incurred during such taxable year equal to the amount described in paragraph (2)(D) (and not already taken into account under this subparagraph for a previous taxable year).

"(f) TERMINATION.—

"(1) IN GENERAL.—This section shall not apply to any amount paid or incurred after June 30, 2004.

"(2) COMPUTATION OF BASE AMOUNT.—In the case of any taxable year with respect to which this section applies to a number of days which is less than the total number of days in such taxable year, the base amount with respect to such taxable year shall be the amount which bears the same ratio to the base amount for such year (determined without regard to this paragraph) as the number of days in such taxable year to which this section applies bears to the total number of days in such taxable year."

(b) INCLUSION IN GENERAL BUSINESS CREDIT.—

(1) IN GENERAL.—Section 38(b), as amended by section 620, is amended by striking "plus" at the end of paragraph (14), by striking the period at the end of paragraph (15) and inserting "plus", and by adding at the end the following new paragraph:

"(16) the vaccine research credit determined under section 45G."

(2) TRANSITION RULE.—Section 39(d), as amended by section 620, is amended by adding at the end the following new paragraph:

"(12) NO CARRYBACK OF SECTION 45G CREDIT BEFORE ENACTMENT.—No portion of the unused business credit for any taxable year which is attributable to the vaccine research credit determined under section 45G may be carried back to a taxable year ending before the date of the enactment of section 45G."

(c) DENIAL OF DOUBLE BENEFIT.—Section 280C is amended by adding at the end the following new subsection:

"(d) CREDIT FOR QUALIFIED VACCINE RESEARCH EXPENSES.—

"(1) IN GENERAL.—No deduction shall be allowed for that portion of the qualified vaccine research expenses (as defined in section 45G(b)) otherwise allowable as a deduction for the taxable year which is equal to the amount of the credit determined for such taxable year under section 45G(a).

"(2) CERTAIN RULES TO APPLY.—Rules similar to the rules of paragraphs (2), (3), and (4) of subsection (c) shall apply for purposes of this subsection."

(d) DEDUCTION FOR UNUSED PORTION OF CREDIT.—Section 196(c) (defining qualified business credits) is amended by striking "and" at the end of paragraph (8), by striking the period at the end of paragraph (9) and inserting "and", and by adding at the end the following new paragraph:

"(10) the vaccine research credit determined under section 45G(a) (other than such credit determined under the rules of section 280C(d)(2))."

(e) TECHNICAL AMENDMENTS.—

(1) Section 1324(b)(2) of title 31, United States Code, is amended by inserting "or from section 45G(e) of such Code," after "1978."

(2) The table of sections for subpart D of part IV of subchapter A of chapter 1, as amended by section 620, is amended by adding at the end the following new item:

"Sec. 45G. Credit for medical research related to developing vaccines against widespread diseases."

(f) **EFFECTIVE DATE.**—The amendments made by this section shall apply to taxable years ending after the date of the enactment of this Act.

**SA 679.** Mr. ROCKEFELLER (for himself, Mr. GRAHAM, Mr. WELLSTONE, Mr. KENNEDY, Mr. HARKIN, Mr. JOHNSON, Mr. KERRY, Mrs. CLINTON, Mr. DAYTON, and Ms. STABENOW) proposed an amendment to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; as follows:

On page 9, between lines 14 and 15, insert the following:

"(4) **DELAY OF TOP RATE REDUCTION.**—

"(A) **IN GENERAL.**—Notwithstanding paragraph (2), with respect to a calendar year, no percentage described in that paragraph shall be substituted for 39.6 percent until the requirement of subparagraph (B) is met.

"(B) **MEDICARE OUTPATIENT PRESCRIPTION DRUG BENEFIT ENACTED.**—Legislation is enacted that adds an outpatient prescription drug benefit to the medicare program established under title XVIII of the Social Security Act, without using funds generated from any surpluses in any trust fund established under the Social Security Act, that is—

"(i) voluntary,

"(ii) accessible to all medicare beneficiaries,

"(iii) designed to assist medicare beneficiaries with the high cost of prescription drugs, protect them from excessive out of pocket costs, and give them bargaining power in the marketplace,

"(iv) affordable to all medicare beneficiaries and the medicare program,

"(v) administered using private sector entities and competitive purchasing techniques, and

"(vi) consistent with broader reform of the medicare program."

**SA 680.** Mr. SMITH of New Hampshire submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

On page 802, after line 21, add the following:

**SEC. 803. REMOVAL OF LIMITATION.**

(a) **IN GENERAL.**—Section 101(h) of the Internal Revenue Code of 1986 (relating to exclusion of survivor benefits from gross income) is amended by adding after paragraph (2) the following new paragraph:

"(3) **APPLICATION.**—This subsection shall apply to amounts received after December 31, 2000."

(b) **EFFECTIVE DATE.**—The amendment made by this section shall take effect on the date of the enactment of this Act.

**SA 681.** Mr. SMITH of New Hampshire submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

On page 802, after line 21, add the following:

**SEC. 803. PERMANENT MORATORIUM ON IMPOSITION OF TAXES ON THE INTERNET.**

Section 1101(a) of the Internet Tax Freedom Act (title XI of division C of the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999; 47 U.S.C. 151 note) is amended by striking "during the period beginning on October 1, 1998, and ending 3 years after the date of the enactment of this Act" and inserting "after September 30, 1998".

**SA 682.** Mrs. HUTCHISON submitted an amendment intended to be proposed by her to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

At the end of the bill, add the following:

**TITLE —SECTION 527 POLITICAL ORGANIZATION REPORTING REQUIREMENTS**

**SEC. —01. EXEMPTION FOR STATE AND LOCAL CANDIDATE COMMITTEES FROM NOTIFICATION REQUIREMENTS.**

(a) **EXEMPTION FROM NOTIFICATION REQUIREMENTS.**—Paragraph (5) of section 527(i) (relating to organizations must notify Secretary that they are section 527 organizations) is amended by striking "or" at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting ", or", and by adding at the end the following:

"(C) which is a political committee of a State or local candidate."

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall take effect as if included in the amendments made by Public Law 106-230.

**SEC. —02. EXEMPTION FOR CERTAIN STATE AND LOCAL POLITICAL COMMITTEES FROM REPORTING AND ANNUAL RETURN REQUIREMENTS.**

(a) **EXEMPTION FROM REPORTING REQUIREMENTS.**—

(1) **IN GENERAL.**—Section 527(j)(5) (relating to coordination with other requirements) is amended by striking "or" at the end of subparagraph (D), by striking the period at the end of subparagraph (E) and inserting ", or", and by adding at the end the following:

"(F) to any organization described in paragraph (7), but only if, during the calendar year—

"(i) such organization is required by State or local law to report, and such organization reports, information regarding each separate expenditure and contribution (including information regarding the person who makes such contribution or receives such expenditure) with respect to which information would otherwise be required to be reported under this subsection, and

"(ii) such information is made public by the agency with which such information is filed and is publicly available for inspection in a manner similar to reports under section 6104(d)(1).

An organization shall not be treated as failing to meet the requirements of subparagraph (F)(i) solely because the minimum amount of any expenditure or contribution required to be reported under State or local law is greater (but not by more than \$100) than the minimum amount required under this subsection."

(2) **DESCRIPTION OF ORGANIZATION.**—Section 527(j) is amended by adding at the end the following:

"(7) **CERTAIN ORGANIZATIONS.**—An organization is described in this paragraph if—

"(A) such organization is not described in subparagraph (A), (B), (C), or (D) of paragraph (5),

"(B) such organization does not engage in any exempt function activities other than activities for the purpose of influencing or attempting to influence the selection, nomination, election, or appointment of any individual to any State or local public office or office in a State or local political organization, and

"(C) no candidate for Federal office or individual holding Federal office—

"(i) controls or materially participates in the direction of such organization,

"(ii) solicits any contributions to such organization, or

"(iii) directs, in whole or in part, any expenditure made by such organization."

(b) **EXEMPTION FROM REQUIREMENTS FOR ANNUAL RETURN BASED ON GROSS RECEIPTS.**—Paragraph (6) of section 6012(a) (relating to persons required to make returns of income) is amended by striking "organization, which" and all that follows through "section)" and inserting "organization—

"(A) which has political organization taxable income (within the meaning of section 527(c)(1)) for the taxable year, or

"(B) which—

"(i) is not a political committee of a State or local candidate or an organization to which section 527 applies solely by reason of subsection (f)(1) of such section, and

"(ii) has gross receipts of—

"(I) in the case of political organization described in section 527(j)(5)(F), \$100,000 or more for the taxable year, and

"(II) in the case of any other political organization, \$25,000 or more for the taxable year."

(c) **EFFECTIVE DATE.**—The amendments made by this section shall take effect as if included in the amendments made by Public Law 106-230.

**SEC. —03. NOTIFICATION OF INTERACTION OF REPORTING REQUIREMENTS.**

(a) **IN GENERAL.**—The Secretary of the Treasury, in consultation with the Federal Election Commission, shall publicize—

(1) the effect of the amendments made by this title, and

(2) the interaction of requirements to file a notification or report under section 527 of the Internal Revenue Code of 1986 and reports under the Federal Election Campaign Act of 1971.

(b) **INFORMATION.**—Information provided under subsection (a) shall be included in any appropriate form, instruction, notice, or other guidance issued to the public by the Secretary of the Treasury or the Federal Election Commission regarding reporting requirements of political organizations (as defined in section 527 of the Internal Revenue Code of 1986) or reporting requirements under the Federal Election Campaign Act of 1971.

**SEC. —04. WAIVER OF PENALTIES.**

(a) **WAIVER OF FILING PENALTIES.**—Section 527 is amended by adding at the end the following:

"(k) **AUTHORITY TO WAIVE.**—The Secretary may waive all or any portion of the—

"(1) tax assessed on an organization by reason of the failure of the organization to give notice under subsection (i), or

"(2) penalty imposed under subsection (j) for a failure to file a report, on a showing that such failure was due to reasonable cause and not due to willful neglect."

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to any tax

assessed or penalty imposed after June 30, 2000.

**SA 683.** Mrs. HUTCHISON submitted an amendment intended to be proposed by her to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

On page 19, beginning with line 21, strike all through the matter preceding line 1 on page 20, and insert:

“(7) APPLICABLE PERCENTAGE.—For purposes of paragraph (2), the applicable percentage shall be determined in accordance with the following table:

“For taxable years beginning in calendar year—	The applicable percentage is—
2002 .....	170
2003 .....	175
2004 .....	180
2005 .....	185
2006 .....	190
2007 .....	195
2008 and thereafter .....	200.”.

On page 20, line 14, strike “2004” and insert “2001”.

**SA 684.** Mr. KENNEDY (for himself, Mr. DODD, and Mr. JOHNSON) submitted an amendment intended to be proposed by him to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; which was ordered to lie on the table; as follows:

On page 9, between lines 14 and 15, insert:

“(4) DELAY OF TOP RATE REDUCTION.—

“(A) IN GENERAL.—Notwithstanding paragraph (2), with respect to a calendar year, no percentage described in that paragraph shall be substituted for 39.6 percent until the requirement of subparagraph (B) is met.

“(B) FULLY FUNDING BASIC EDUCATION SERVICES.—The requirement of this subparagraph is that legislation be enacted that appropriates funds for core education programs at or above the levels that have been authorized for such programs by the Senate in the following amendments to Senate bill 1 (the Better Education for Students and Teachers Act, 107th Congress):

“(i) Senate Amendment 360 (107th Congress; as offered by Senator Hagel and Senator Harkin), which passed the Senate on a voice vote with no dissenters, to honor the Federal commitment to provide States with 40 percent of the cost of implementing the Individuals with Disabilities Education Act, instead of the 17 percent of costs that the Federal Government currently provides.

“(ii) Senate Amendment 365 (107th Congress; as offered by Senator Dodd), which passed the Senate on a vote of 79 to 21, to provide support under title I of the Elementary and Secondary Education Act of 1965 (as amended by the Better Education for Students and Teachers Act) for 100 percent of the economically disadvantaged children rather than the 33 percent who are currently aided under such title.

“(iii) Senate Amendment 375 (107th Congress; as offered by Senator Kennedy), which passed the Senate on a vote of 69 to 31, to improve teacher quality for all students under the bipartisan agreement reflected in part A of title II of the Elementary and Secondary Education Act of 1965 (as amended by the Better Education for Students and Teachers Act).

“(iv) Senate Amendment 451 (107th Congress; as offered by Senator Lincoln), which passed the Senate on a vote of 62 to 34, to improve the quality of education available to bilingual students with limited English proficiency, especially in light of the nation’s growing immigrant population.

“(v) Senate Amendment 563 (107th Congress; as offered by Senator Boxer), which passed the Senate on a vote of 60 to 39, to ensure that more of the nation’s 7,000,000 latchkey children have access to safe, constructive activities after school while their parents are at work.

**SA 685.** Mr. BAYH (for himself, Ms. SNOWE, Mr. CHAFEE, Ms. LANDRIEU, Mrs. FEINSTEIN, Ms. COLLINS, Ms. STABENOW, Mr. JEFFORDS, Mr. KOHL, Mr. CARPER, Mr. NELSON of Florida, and Mrs. CLINTON) proposed an amendment to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; as follows:

At the appropriate place, insert the following:

#### SEC. \_\_\_\_ . ENSURING DEBT REDUCTION.

(a) TRIGGER.—

(1) IN GENERAL.—Notwithstanding any other provision of this Act or any other law, the effective date of a provision of law described in paragraph (2) shall be delayed as provided in paragraph (3).

(2) PROVISION DESCRIBED.—A provision of law described in this paragraph is—

(A) a provision of this Act that takes effect in fiscal year 2005 or 2007 and results in a revenue reduction; or

(B) a provision of law that—

(i) is enacted after the date of enactment of this Act; and

(ii) takes effect in fiscal year 2005 or 2007 and causes increased outlays through mandatory spending.

(3) DELAY.—If, on September 30 of 2004 and 2006, the Secretary of the Treasury determines that the limit on the debt held by the public in section 253A(a) of the Balanced Budget and Emergency Deficit Control Act of 1985 will be exceeded in the fiscal year beginning October 1 of the following year, the effective date of any a provision of law described in paragraph (2) that takes effect during that fiscal year shall be delayed by 1 calendar year.

(4) DISCRETIONARY SPENDING LIMITATION.—Notwithstanding any other provision of law, in any fiscal year subject to the delay provisions of paragraph (3), the amount of discretionary spending in each discretionary spending account shall be the level provided for that account in the preceding fiscal year plus an adjustment for inflation.

(5) REPORTS TO CONGRESS.—On July 1 and September 5 of 2003 and 2005, the Secretary of the Treasury shall report to Congress the estimated amount of the debt held by the public for the fiscal year beginning on October 1 of that year.

(6) CONGRESSIONAL ACTION.—

(A) TRIGGER.—

(i) MODIFICATION.—In fiscal year 2005 or 2007, if the level of debt held by the public for that fiscal year would be below the level of debt held by the public for that fiscal year in section 253A(a) of the Balanced Budget and Emergency Deficit Control Act of 1985, due to the provisions of paragraphs (3) and (4) any Member of Congress may move to proceed to a bill that would make changes in law to increase discretionary spending and direct spending and increase revenues (pro-

portionately) in a manner that would increase the debt held by the public for that fiscal year to a level not exceeding the level provided in section 253A(a) of the Balanced Budget and Emergency Deficit Control Act of 1985. The motion to proceed shall be voted on at the end of 4 hours of debate. A bill considered under this clause shall be considered as provided in section 310(e) of the Congressional Budget Act of 1974 (2 U.S.C. 641(e)). Any amendment offered to the bill shall maintain the proportionality requirement.

(ii) WAIVER.—The delay and limitation provided in paragraphs (3) and (4) may be disapproved by a joint resolution. A joint resolution considered under this clause shall not be advanced to third reading in either House unless a motion to proceed to third reading is agreed to by three-fifths of the Members, duly chosen and sworn.

(B) OTHER FISCAL YEARS.—

(i) IN GENERAL.—In fiscal year 2003, 2005, 2007, 2008, 2009, or 2010, if the level of debt held by the public for that fiscal year would exceed the level of debt held by the public for that fiscal year in section 253A(a) of the Balanced Budget and Emergency Deficit Control Act of 1985, any Member of Congress may move to proceed to a bill that would defer changes in law that take effect in that fiscal year that would increase direct spending and decrease revenues and freeze the amount of discretionary spending in each discretionary spending account for that fiscal year at the level provided for that account in the preceding fiscal year plus an adjustment for inflation (all proportionately) in a manner that would reduce the debt held by the public for that fiscal year to a level not exceeding the level provided in section 253A(a) of the Balanced Budget and Emergency Deficit Control Act of 1985. The motion to proceed shall be voted on at the end of 4 hours of debate. Any amendment offered to the bill shall either defer effective dates or freeze discretionary spending and maintain the proportionality requirement.

(ii) CONSIDERATION OF LEGISLATION.—A bill considered under clause (i) shall be considered as provided in section 310(e) of the Congressional Budget Act of 1974 (2 U.S.C. 641(e)).

(b) PUBLIC DEBT TARGETS.—The Balanced Budget and Emergency Deficit Control Act of 1985 is amended—

(1) in section 250(c)(1), by inserting “‘ debt held by the public’” after “‘outlays’”; and

(2) by inserting after section 253 the following:

#### “SEC. 253A. DEBT HELD BY THE PUBLIC LIMIT.

“(a) LIMIT.—The debt held by the public shall not exceed—

“(1) for fiscal year 2002, \$2,955,000,000,000;

“(2) for fiscal year 2003, \$2,747,000,000,000;

“(3) for fiscal year 2004, \$2,524,000,000,000;

“(4) for fiscal year 2005, \$2,279,000,000,000;

“(5) for fiscal year 2006, \$2,011,000,000,000;

“(6) for fiscal year 2007, \$1,724,000,000,000;

“(7) for fiscal year 2008, \$1,418,000,000,000;

“(8) for fiscal year 2009, \$1,089,000,000,000; and

“(9) for fiscal year 2010, \$878,000,000,000.

“(b) ADJUSTMENTS TO DEBT TARGETS FOR INABILITY TO REDEEM.—

“(1) IN GENERAL.—The debt held by the public targets may be adjusted in a specific fiscal year if the Secretary of the Treasury certifies that the target cannot be reached because the Department of the Treasury will be unable to redeem a sufficient amount of securities from holders of Federal debt to achieve the target.

“(2) CERTIFICATION.—The certification shall—

“(A) be transmitted by the President to Congress;

“(B) outline the specific reasons that the targets cannot be achieved and the estimated amount of excess reserves that will accumulate due to an inability of the Treasury to redeem Federal debt; and

“(C) not be the result of a lack of surplus revenues being available to redeem debt held by the public.

“(3) CONGRESSIONAL ACTION.—The adjustment provided in this subsection may be disapproved by a joint resolution. A joint resolution considered under this paragraph shall not be advanced to third reading in either House unless a motion to proceed to third reading is agreed to by a majority of the whole body.”.

(c) CONGRESSIONAL BUDGET PROCESS.—

(1) POINT OF ORDER.—Section 301 of the Congressional Budget Act of 1974 is amended by adding at the end the following:

“(j) DEBT HELD BY THE PUBLIC POINT OF ORDER.—It shall not be in order in the Senate to consider any bill, joint resolution, amendment, motion, or conference report that would—

“(1) increase the limit on the debt held by the public in section 253A(a) of the Balanced Budget and Emergency Deficit Control Act of 1985; or

“(2) provide additional borrowing authority that would result in the limit on the debt held by the public in section 253A(a) of the Balanced Budget and Emergency Deficit Control Act of 1985 being exceeded.”.

(2) SUPERMAJORITY WAIVER AND APPEAL.—Subsections (c)(1) and (d)(2) of section 904 of the Congressional Budget Act of 1974 are amended by striking “305(b)(2),” and inserting “301(j), 305(b)(2),”.

(3) ADDITIONAL AMENDMENTS TO THE BUDGET ACT.—The Congressional Budget Act of 1974 is amended—

(A) in section 3, by adding at the end the following:

“(11)(A) The term ‘debt held by the public’ means the outstanding face amount of all debt obligations issued by the United States Government that are held by outside investors, including individuals, corporations, State or local governments, foreign governments, and the Federal Reserve System.

“(B) For the purpose of this paragraph, the term ‘face amount’, for any month, of any debt obligation issued on a discount basis that is not redeemable before maturity at the option of the holder of the obligation is an amount equal to the sum of—

“(i) the original issue price of the obligation; plus

“(ii) the portion of the discount on the obligation attributable to periods before the beginning of such month.”;

(B) in section 301(a) by—

(i) redesignating paragraphs (6) and (7) as paragraphs (7) and (8), respectfully; and

(ii) inserting after paragraph (5) the following:

“(6) the debt held by the public; and”; and

(C) in section 310(a) by—

(i) striking “or” at the end of paragraph (3);

(ii) by redesignating paragraph (4) as paragraph (5); and

(iii) inserting the following new paragraph:

“(4) specify the amounts by which the statutory limit on the debt held by the public is to be changed and direct the committee having jurisdiction to recommend such change; or”.

**SA 686.** Ms. LANDRIEU (for herself, Mr. CRAIG, and Mrs. LINCOLN) proposed

an amendment to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; as follows:

On page 18, between lines 14 and 15, insert the following:

**SEC. 202. EXPANSION OF ADOPTION CREDIT AND ADOPTION ASSISTANCE PROGRAMS.**

(a) IN GENERAL.—

(1) ADOPTION CREDIT.—Section 23(a)(1) (relating to allowance of credit) is amended to read as follows:

“(1) IN GENERAL.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter—

“(A) in the case of an adoption of a child other than a child with special needs, the amount of the qualified adoption expenses paid or incurred by the taxpayer; and

“(B) in the case of an adoption of a child with special needs, \$10,000.”.

(2) ADOPTION ASSISTANCE PROGRAMS.—Section 137(a) (relating to adoption assistance programs) is amended to read as follows:

“(a) IN GENERAL.—Gross income of an employee does not include amounts paid or expenses incurred by the employer for adoption expenses in connection with the adoption of a child by an employee if such amounts are furnished pursuant to an adoption assistance program. The amount of the exclusion shall be—

“(1) in the case of an adoption of a child other than a child with special needs, the amount of the qualified adoption expenses paid or incurred by the taxpayer; and

“(2) in the case of an adoption of a child with special needs, \$10,000.”.

(b) DOLLAR LIMITATIONS.—

(1) DOLLAR AMOUNT OF ALLOWED EXPENSES.—

(A) ADOPTION EXPENSES.—Section 23(b)(1) (relating to allowance of credit) is amended—

(i) by striking “\$5,000” and inserting “\$10,000”;

(ii) by striking “(\$6,000, in the case of a child with special needs)”, and

(iii) by striking “subsection (a)” and inserting “subsection (a)(1)(A)”.

(B) ADOPTION ASSISTANCE PROGRAMS.—Section 137(b)(1) (relating to dollar limitations for adoption assistance programs) is amended—

(i) by striking “\$5,000” and inserting “\$10,000”; and

(ii) by striking “(\$6,000, in the case of a child with special needs)”, and

(iii) by striking “subsection (a)” and inserting “subsection (a)(1)”.

(2) PHASE-OUT LIMITATION.—

(A) ADOPTION EXPENSES.—Clause (i) of section 23(b)(2)(A) (relating to income limitation) is amended by striking “\$75,000” and inserting “\$150,000”.

(B) ADOPTION ASSISTANCE PROGRAMS.—Section 137(b)(2)(A) (relating to income limitation) is amended by striking “\$75,000” and inserting “\$150,000”.

(c) YEAR CREDIT ALLOWED.—Section 23(a)(2) (relating to year credit allowed) is amended by adding at the end the following new flush sentence:

“In the case of the adoption of a child with special needs, the credit allowed under paragraph (1) shall be allowed for the taxable year in which the adoption becomes final.”.

(d) REPEAL OF SUNSET PROVISIONS.—

(1) CHILDREN WITHOUT SPECIAL NEEDS.—Paragraph (2) of section 23(d) (relating to definition of eligible child) is amended to read as follows:

“(2) ELIGIBLE CHILD.—The term ‘eligible child’ means any individual who—

“(A) has not attained age 18, or

“(B) is physically or mentally incapable of caring for himself.”.

(2) ADOPTION ASSISTANCE PROGRAMS.—Section 137 (relating to adoption assistance programs) is amended by striking subsection (f).

(e) ADJUSTMENT OF DOLLAR AND INCOME LIMITATIONS FOR INFLATION.—

(1) ADOPTION CREDIT.—Section 23 (relating to adoption expenses) is amended by redesignating subsection (h) as subsection (i) and by inserting after subsection (g) the following new subsection:

“(h) ADJUSTMENTS FOR INFLATION.—In the case of a taxable year beginning after December 31, 2002, each of the dollar amounts in subsection (a)(1)(B) and paragraphs (1) and (2)(A)(i) of subsection (b) shall be increased by an amount equal to—

“(1) such dollar amount, multiplied by

“(2) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting ‘calendar year 2001’ for ‘calendar year 1992’ in subparagraph (B) thereof.”.

(2) ADOPTION ASSISTANCE PROGRAMS.—Section 137 (relating to adoption assistance programs), as amended by subsection (d), is amended by adding at the end the following new subsection:

“(f) ADJUSTMENTS FOR INFLATION.—In the case of a taxable year beginning after December 31, 2002, each of the dollar amounts in subsection (a)(2) and paragraphs (1) and (2)(A) of subsection (b) shall be increased by an amount equal to—

“(1) such dollar amount, multiplied by

“(2) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting ‘calendar year 2001’ for ‘calendar year 1992’ in subparagraph (B) thereof.”.

(f) LIMITATION BASED ON AMOUNT OF TAX.—

(1) IN GENERAL.—Section 23(c) (relating to carryforwards of unused credit) is amended by striking “the limitation imposed” and all that follows through “1400C)” and inserting “the applicable tax limitation”.

(2) APPLICABLE TAX LIMITATION.—Section 23(d) (relating to definitions) is amended by adding at the end the following new paragraph:

“(4) APPLICABLE TAX LIMITATION.—The term ‘applicable tax limitation’ means the sum of—

“(A) the taxpayer’s regular tax liability for the taxable year, reduced (but not below zero) by the sum of the credits allowed by sections 21, 22, 24 (other than the amount of the increase under subsection (d) thereof), 25, and 25A; and

“(B) the tax imposed by section 55 for such taxable year.”.

(3) CONFORMING AMENDMENTS.—

(A) Section 26(a) (relating to limitation based on amount of tax) is amended by inserting “(other than section 23)” after “allowed by this subpart”.

(B) Section 53(b)(1) (relating to minimum tax credit) is amended by inserting “reduced by the aggregate amount taken into account under section 23(d)(3)(B) for all such prior taxable years,” after “1986.”.

(g) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 2001.

**SA 687.** Mr. GRAHAM (for himself, Mr. CORZINE, and Mr. DAYTON) proposed an amendment to the bill H.R. 1836, to

provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; as follows:

Strike all after the first word and insert the following:

**SECTION 1. SHORT TITLE; ETC.**

(a) **SHORT TITLE.**—This Act may be cited as the “Economic Insurance Tax Cut of 2001”.

(b) **AMENDMENT OF 1986 CODE.**—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

(c) **SECTION 15 NOT TO APPLY.**—No amendment made by this Act shall be treated as a change in a rate of tax for purposes of section 15 of the Internal Revenue Code of 1986.

**SEC. 2. 10-PERCENT INCOME TAX RATE BRACKET FOR INDIVIDUALS.**

(a) **RATES FOR 2001.**—Section 1 (relating to tax imposed) is amended by striking subsections (a) through (d) and inserting the following:

“(a) **MARRIED INDIVIDUALS FILING JOINT RETURNS AND SURVIVING SPOUSES.**—There is hereby imposed on the taxable income of—

“(1) every married individual (as defined in section 7703) who makes a single return jointly with his spouse under section 6013, and

“(2) every surviving spouse (as defined in section 2(a)), a tax determined in accordance with the following table:

<b>“If taxable income is:</b>	<b>The tax is:</b>
Not over \$19,000 .....	10% of taxable income.
Over \$19,000 but not over \$45,200 .....	\$1,900, plus 15% of the excess over \$19,000.
Over \$45,200 but not over \$109,250 .....	\$5,830, plus 28% of the excess over \$45,200.
Over \$109,250 but not over \$166,500 .....	\$23,764, plus 31% of the excess over \$109,250.
Over \$166,500 but not over \$297,350 .....	\$41,511.50, plus 36% of the excess over \$166,500.
Over \$297,350 .....	\$88,617.50, plus 39.6% of the excess over \$297,350.

“(b) **HEADS OF HOUSEHOLDS.**—There is hereby imposed on the taxable income of every head of a household (as defined in section 2(b)) a tax determined in accordance with the following table:

<b>“If taxable income is:</b>	<b>The tax is:</b>
Not over \$14,250 .....	10% of taxable income.
Over \$14,250 but not over \$36,250 .....	\$1,425, plus 15% of the excess over \$14,250.
Over \$36,250 but not over \$93,650 .....	\$4,725, plus 28% of the excess over \$36,250.
Over \$93,650 but not over \$151,650 .....	\$20,797, plus 31% of the excess over \$93,650.
Over \$151,650 but not over \$297,350 .....	\$38,777, plus 36% of the excess over \$151,650.
Over \$297,350 .....	\$91,229, plus 39.6% of the excess over \$297,350.

“(c) **UNMARRIED INDIVIDUALS (OTHER THAN SURVIVING SPOUSES AND HEADS OF HOUSEHOLDS).**—There is hereby imposed on the taxable income of every individual (other than a surviving spouse as defined in section 2(a) or the head of a household as defined in section 2(b)) who is not a married individual (as defined in section 7703) a tax determined in accordance with the following table:

<b>“If taxable income is:</b>	<b>The tax is:</b>
Not over \$9,500 .....	10% of taxable income.
Over \$9,500 but not over \$27,050 .....	\$950, plus 15% of the excess over \$9,500.
Over \$27,050 but not over \$65,550 .....	\$3,582.50, plus 28% of the excess over \$27,050.
Over \$65,550 but not over \$136,750 .....	\$14,362.50, plus 31% of the excess over \$65,550.
Over \$136,750 but not over \$297,350 .....	\$36,434.50, plus 36% of the excess over \$136,750.

**“If taxable income is:**

Over \$297,350 .....	\$94,250.50, plus 39.6% of the excess over \$297,350.
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“(d) **MARRIED INDIVIDUALS FILING SEPARATE RETURNS.**—There is hereby imposed on the taxable income of every married individual (as defined in section 7703) who does not make a single return jointly with his spouse under section 6013, a tax determined in accordance with the following table:

**“If taxable income is:**

Not over \$9,500 .....	10% of taxable income.
Over \$9,500 but not over \$22,600 .....	\$950, plus 15% of the excess over \$9,500.
Over \$22,600 but not over \$54,625 .....	\$2,915, plus 28% of the excess over \$22,600.
Over \$54,625 but not over \$83,250 .....	\$11,882, plus 31% of the excess over \$54,625.
Over \$83,250 but not over \$148,675 .....	\$20,755.75, plus 36% of the excess over \$83,250.
Over \$148,675 .....	\$44,308.75, plus 39.6% of the excess over \$148,675.”.

(b) **INFLATION ADJUSTMENT TO APPLY IN DETERMINING RATES FOR 2002.**—Subsection (f) of section 1 is amended—

(1) by striking “1993” in paragraph (1) and inserting “2001”;

(2) by striking “1992” in paragraph (3)(B) and inserting “2000”, and

(3) by striking paragraph (7).

(c) **CONFORMING AMENDMENTS.**—

(1) The following provisions are each amended by striking “1992” and inserting “2000” each place it appears:

- (A) Section 25A(h).
- (B) Section 32(j)(1)(B).
- (C) Section 41(e)(5)(C).
- (D) Section 42(h)(3)(H)(i)(II).
- (E) Section 59(j)(2)(B).
- (F) Section 63(c)(4)(B).
- (G) Section 68(b)(2)(B).
- (H) Section 132(f)(6)(A)(ii).
- (I) Section 135(b)(2)(B)(ii).
- (J) Section 146(d)(2)(B).
- (K) Section 151(d)(4).
- (L) Section 220(g)(2).
- (M) Section 221(g)(1)(B).
- (N) Section 512(d)(2)(B).
- (O) Section 513(h)(2)(C)(ii).
- (P) Section 685(c)(3)(B).
- (Q) Section 877(a)(2).
- (R) Section 911(b)(2)(D)(ii)(II).
- (S) Section 2032A(a)(3)(B).
- (T) Section 2503(b)(2)(B).
- (U) Section 2631(c)(2).
- (V) Section 4001(e)(1)(B).
- (W) Section 4261(e)(4)(A)(ii).
- (X) Section 6039F(d).
- (Y) Section 6323(i)(4)(B).
- (Z) Section 6334(g)(1)(B).
- (AA) Section 6601(j)(3)(B).
- (BB) Section 7430(c)(1).

(2) Subclause (II) of section 42(h)(6)(G)(i) is amended by striking “1987” and inserting “2000”.

(d) **ADDITIONAL CONFORMING AMENDMENTS.**—

(1) Section 1(g)(7)(B)(ii)(II) is amended by striking “15 percent” and inserting “10 percent”.

(2) Section 1(h) is amended by striking paragraph (13).

(3) Section 3402(p)(1)(B) is amended by striking “7, 15, 28, or 31 percent” and inserting “5, 10, 15, 28, or 31 percent”.

(4) Section 3402(p)(2) is amended by striking “15 percent” and inserting “10 percent”.

(e) **DETERMINATION OF WITHHOLDING TABLES.**—Section 3402(a) (relating to requirement of withholding) is amended by adding at the following new paragraph:

“(3) **CHANGES MADE BY SECTION 2 OF THE ECONOMIC INSURANCE TAX CUT OF 2001.**—Notwithstanding the provisions of this subsection, the Secretary shall modify the ta-

**The tax is:**

Over \$297,350 .....	\$94,250.50, plus 39.6% of the excess over \$297,350.
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bles and procedures under paragraph (1) through the reduction of the amount of withholding required with respect to taxable years beginning in calendar year 2001 to reflect the effective date of the amendments made by section 2 of the Economic Insurance Tax Cut of 2001, and such modification shall take effect on the first day of the first month beginning after the date of the enactment of such Act.”

(f) **EFFECTIVE DATES.**—

(1) **IN GENERAL.**—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 2000.

(2) **AMENDMENTS TO WITHHOLDING PROVISIONS.**—The amendments made by paragraphs (3) and (4) of subsection (d) shall apply to amounts paid after December 31, 2000.

**SA 688.** Mr. GRAHAM proposed an amendment to the bill H.R. 1836, to provide for reconciliation pursuant to section 104 of the concurrent resolution on the budget for fiscal year 2002; as follows:

Beginning on page 64, line 17, strike all through page 66, before line 2, and insert:

**Subtitle B—Reduction of Gift Tax Rate**

**SEC. 511. REDUCTION OF GIFT TAX RATE AFTER REPEAL.**

On page 66, line 2, strike “(d)” and insert “(a)”.

On page 67, line 1, strike “(e)” and insert “(b)”.

Beginning on page 67, line 12, strike all through page 68, line 6, and insert:

(f) **EFFECTIVE DATE.**—The amendments made by this section shall apply to gifts made after December 31, 2010.

On page 68, strike the table between lines 14 and 15, and insert:

<b>“In the case of estates of decedents dying during:</b>	<b>The applicable exclusion amount is:</b>
2002 and 2003 .....	\$1,000,000
2004, 2005, and 2006 .....	\$2,000,000
2007, 2008, 2009, and 2010 .....	\$3,000,000.”.

Beginning on page 70, line 20, strike all through page 79, line 6.

**NOTICE OF HEARINGS**

**COMMITTEE ON ENERGY AND NATURAL RESOURCES**

Mr. MURKOWSKI. Mr. President, I would like to announce for the information of the Senate and the public that the hearing previously scheduled before the Committee on Energy and Natural Resources for Tuesday, May 22 at 2:30 p.m. in SH-216 has been rescheduled for Wednesday, May 23, 2001 at 9:30 a.m. in room SD-366 of the Dirksen Senate Office Building in Washington, D.C.

The purpose of this hearing is to receive testimony on the Administration’s National Energy Policy report.

Because of the limited time available for the hearing, witnesses may testify by invitation only. However, those wishing to submit written testimony for the hearing record should send two copies of their testimony to the Committee on Energy and Natural Resources, United States Senate, 364